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ABSTRACT

This report presents case studies from seven states showing how state governments are: (1) responding to demands for more efficient and effective delivery of children's services; (2) taking on additional responsibilities formerly handled at the federal level; and (3) passing on added responsibilities to the local level (school districts, local government, dedicated collaboratives, and neighborhood partnerships). The first section of the report discusses progress among the states in financing reform, points to many differences in approach, and notes recurring and cross-cutting themes in each state. This section concludes with observations and a list of critical, ongoing challenges for states as they continue reform efforts in the delivery of children's services. The responses of policymakers and selected education and service initiatives in California, Kentucky, Michigan, North Carolina, Oregon, Vermont, and Wisconsin are highlighted. State reports are based on interviews with major observers (key state leaders, officials and advocates) and reviews of relevant written materials. For each state there is a report, beginning with a summary, followed by a formatted illustration page, "At a Glance," showing government structure, budget process, fiscal capacity, demographics, revenues, expenditures, and resources for education and other children's services. Each state section also includes an introduction to the state's efforts to reform the financing and delivery of children's services, descriptions of specific programs, discussions of salient issues, and overall observations. (ET)

STATE INVESTMENTS IN EDUCATION AND OTHER CHILDREN'S SERVICES

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Case Studies of Financing Innovations

THE FINANCE PROJECT

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Case Studies of Financing Innovations

September 1995

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TABLE OF CONTENTS

PREFACE

States and communities are under increasing pressure to improve their education, health and welfare systems. If Congress has its way, they will also play a larger role in designing, operating and paying for education and other supports and services for children and their families. As debate continues on Capitol Hill about the specifics of new legislation to reform the nation's welfare system and devolve control to the states, the looming question is whether the states are ready for what these major shifts in federal policy may bring?

Most states are in the best financial shape they have been in for years.[1] Revenues and expenditures were higher than originally budgeted for in most states during 1993 and 1994, and strong revenue growth has allowed some states to build reserves to their highest levels since 1980. Yet changing demographic and economic conditions, as well as a changing policy landscape, suggest that many states will face significant fiscal and budgetary challenges during the remainder of the decade and beyond. The prospect of increasing school enrollments and larger responsibility for meeting the needs of low-income families with children will make it increasingly difficult for states to sustain or increase their support for education and other services in the face of slower economic growth, a changing revenue base, declining federal aid, and a political climate that is hostile to higher taxes.

States vary dramatically in their expenditures for education and a number of other health and social services. Yet the factors that led to substantially increased spending per child in some states over the past two decades--for example, economic growth and declining school enrollments--are unlikely to continue. If economic growth slows somewhat and the school-age population increases as projected, states will need additional funds to pay for education. Similarly, if child poverty rates increase even modestly, states will have a more difficult time meeting the needs of low-income children and families.

Some states have anticipated these demographic and economic shifts and the budgetary pressures they will entail. They have become laboratories for public finance reform. Across the country, states have launched an array of efforts to improve financing and to make government work better and more efficiently. Some of these have focused on tax reform and new dedicated sources of revenue for education and other children's services. Some have sought to streamline service delivery, create more integrated service systems, and develop more flexible funding authorities to support them. Others have focused on developing and implementing more performance-based approaches to planning and budgeting. Still others are devolving control to cities and counties in order to tailor service delivery to local needs and shift a greater share of financial responsibility to local governments. While none of these innovative efforts is a proven panacea, they all represent interesting responses to the rapidly changing environment in which many states are carrying out their long-standing role as providers, regulators and funders of

[1] National Conference of State Legislatures and National Association of Legislative Fiscal Officers, State Budget and Tax Actions 1995: Preliminary Report. Denver, CO: National Conference of State Legislatures, July 1995.

education and other children's services. Their experiences are instructive and will become even more salient as more states position themselves to manage in a newly defined relationship with the federal government and with their local communities.

Against this backdrop, The Finance Project has conducted a series of studies of state financing for education and other children's services. These include:

- State Investments in Education and Other Children's Services: Fiscal Profiles of the 50 States--state-by-state profiles of patterns of spending on education and other key health, welfare, and social services, and of significant economic and demographic factors influencing spending;
- State Investments in Education and Other Children's Services: The Fiscal Challenges Ahead--an analysis of factors affecting spending and their future implications given the changing demographic, economic, and policy context; and
- State Investments in Education and Other Children's Services: Case Studies of Financing Innovations--examinations of the experiences of seven states that have launched initiatives to improve financing.

Taken together these studies paint a vivid picture of the fiscal and budgetary challenges that states will face over the coming several years. They clarify a number of the critical policy and political issues that will confront governors, state legislatures, educators and others who run programs to serve children and their families. And they highlight a variety of nascent efforts in states nationwide to improve public financing for education and other children's services.

These papers are part of a larger series of working papers on salient issues related to financing for education and other children's services produced by The Finance Project. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. Many are works in progress that will be revised and updated as new information becomes available. They reflect the views and interpretations of their authors. By making them available to a wider audience, the intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings presented and use them to advance their own efforts to improve public financing strategies.

The Finance Project was established by a consortium of national foundations to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. Over a three-year period that began in January 1994, the project is conducting an ambitious agenda of policy research and development activities, as well as policy-maker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public resources that more closely match public priorities and more effectively support improved education and community systems.

Cheryl D. Hayes
Executive Director

STATE PROGRESS TOWARD FINANCING REFORM

Introduction

State governments have long played a pivotal role in the delivery of education and ^ther children's services. Public education, for example, is funded primarily by state and local governments, with federal aid amounting to only a small portion of overall revenues. States also carry the legislative responsibility for setting standards for the school systems, for licensing facilities and faculty, and for developing education programs that meet the needs of the state's children. While state governments do not directly operate the public schools, they often take the lead in setting broad policy direction.

Beyond education, state resources are called upon to match federal funding for health and human service programs such as Medicaid, Aid to Families with Dependent Children (AFDC), and child welfare services. Moreover, state government agencies often administer health and human services programs or, in those states where local governments are the primary providers, have oversight and supervisory responsibilities for these programs. In the area of both education and children's services, states serve as a bridge between the federal and local governments, dispensing federal aid to localities and ensuring proper use of the funds.

Given their long-standing and traditional role as funders, providers, and regulators of education and children's services, state governments are critical to efforts to reform and restructure service delivery. Whether efforts focus on increasing educational equity, integrating education and human services systems, producing more comprehensive service delivery, or tailoring service delivery more closely to local needs and preferences, the need for state government support is prominent. Often reform efforts change the roles of state and local governments and the relationships between and among governmental entities, the private sector, and local communities and neighborhoods.

States are operating in a rap'dly changing environment. Current proposals for block grants, system reform, devolutio.. and government reinvention seek to alter the role of the state in financing education and other children's services. In late 1994 and early 1995, state officials expressed an understandable wariness about the future and particularly about federal intentions; the states simply did not know what really would happen as regards federal support and federal regulation. Generally, state officials were operating on an expectation of increasingly scarce resources, from all sources, for future programming. And while most expressed general optimism about the state's ability to handle its responsibilities, there was also discernible pessimism about both the availability of resources and a public mood that was most often described as antitax, antigovernment, and extremely punitive on issues such as prisons and welfare reform.

Nonetheless, states are preparing to take on additional responsibilities from a less activist federal government, while at the same time passing on added responsibilities to school districts and local governments, and to newly created local collaboratives, and in some instances reaching beyond local government to establish partnerships with neighborhood

bodies and individual schools. These very difficult tasks are being approached with energy and enthusiasm by dedicated public officials.

This report documents the initiatives of state policymakers in seven states (California, Kentucky, Michigan, North Carolina, Oregon, Vermont, and Wisconsin). It includes a reflection on what we have seen across the states and seven brief reports describing select education and children's services initiatives in these states. The reports are based on interviews with key state leaders, local officials, advocates, and other major observers as well as reviews of relevant written materials.

Cross-Cutting Themes

The progress that states are making in reforming the financing of education and other children's services is of critical importance given the significance of states in funding, delivering, or supervising services for children and the prominence of state government in a number of schemes to reinvent American government. State-level reform efforts frequently feature changes in the structure and character of financing systems as a critical ingredient in a restructured and reformed service delivery system, as noted in the case studies that make up the body of this report. States are actively involved in developing and testing financing systems that promise to increase accountability, to develop effective incentives and rewards, and to provide the flexibility necessary to meet local needs. Those who look to state governments to create new systems of education and other children's services for the 21st century must take note of the forces and projects already in play at the state level.

Despite the many differences among states and their approaches to education and other children's services, four important crosscutting themes reoccur in nearly all of the seven states we examined. These are as follows:

- **Efforts are being made to restructure education and human services delivery systems to alter governance responsibilities so that they are carried out closer to the point of service delivery.** Two parallel but distinct courses are being taken to achieve these goals. In some efforts, states are devolving authority to local governments such as counties and school districts, in effect increasing the authority of existing local institutions. In other efforts, states are reaching beyond local governments to spur the creation of new collaborative entities, sometimes at the level of neighborhoods or individual schools.
- **States are attempting to increase their focus on the results or outcomes of education and children's services.** To accomplish this, state policymakers are working to better assess the impact of programs and supports and to create greater interaction among planning, evaluation, and resource allocation. The ultimate hope is to tie solid information on "what works" to budget processes in ways that increase the effectiveness of publicly supported services and better spend the public's funds.
- **States have had to deal with the impact on education and other children's services caused by public and political dissatisfaction with the property tax as a source of public revenue.** In some states a revolt against property taxes, which

have historically been the backbone of public support for children's programming, has resulted in threats to ongoing services and a need to rethink much of the financing structure currently in place.

- **Finally, ballot initiatives and referendums are an important factor in the governing process.**

Each of these four themes will be addressed in turn, followed by a discussion that reflects on the experience of seven states and raises questions for the future.

Efforts to Restructure State and Local Relationships in Education and Human Services

Without exception, the seven states reviewed in this report are involved in efforts to push responsibility and decisionmaking down to local school districts, counties, neighborhoods, or individual schools. The states differ in approaches they have taken to restructuring state and local education and human services relationships, with some states delegating increased authority to local governments and others delegating new responsibilities to other local entities. The experiences in Wisconsin and California provide examples of delegation efforts from the state government to local government.

Finance reform is critical to efforts to delegate authority over significant resources from one level of government to another. The pulls and tugs in these efforts are considerable and fundamental. States need to develop financing methods that raise revenue at one level of government while spending at another level, that provide flexibility while maintaining accountability, and that ensure continued political support. Financing methods that balance these legitimate interests must be agreed upon for delegation of authority to take place and to be successful.

In Wisconsin and California, the primary efforts reviewed were designed to alter the relationship between state and county governments in human services. In both instances changes in the service delivery system were expected to stem from state delegation of authority to county governments, resulting in increased control of resources and increased decisionmaking at the local level. The changes in both states were intended to foster increased service integration and, in the more recent devolution in California, to partially offset the impact of funding reductions.

The Wisconsin Community Aids effort, an outgrowth of the 1970s service integration movement, provides an example of a mature and institutionalized system reform. While the state-local relationship has been revised continually to meet current conditions and to reflect current policy preferences, the essential character of the system--primarily state funded yet containing a great deal of local flexibility--is firmly established. California's Realignment, on the other hand, is at a much earlier stage of development, with many long-term questions remaining about the extent of latitude that will be available to counties.

In both North Carolina's Smart Start initiative and Oregon's local commissions on children and families, new governance entities were created to bring local perspective and accountability to education and other children's services rather than utilizing existing general purpose governments such as county or city government. In Kentucky, an important part of

the Kentucky Education Reform Act's (KERA) strategy is to provide financial incentives and rewards to individuals schools without bypassing or undercutting the school districts.

In Vermont, state leaders fostered coordination between education and human services delivery systems without structural change. Ultimately, however, Vermont will face the difficulties of trying to coordinate and devolve responsibilities in a human services system that is funded without the involvement of local general-purpose government and that has no locally raised taxes and an education system that is mostly locally funded and governed by a citizen participation model wholly unlike anything that exists in human services. Preliminary discussions in one community of a combined education/human services children's board may hold one possible solution.

Based on the experiences of Wisconsin, California, and other states, a number of important considerations exist for states with agendas that include delegating authority, increasing local options and flexibility, and collapsing funding categories. The issues to be considered by state policymakers and children's services advocates include the following:

- **Decreasing Support.** Large, generalized pots of money often suffer in annual or biennial budget competitions. The tendency is for program funding, once blocked and delegated, to receive only minimal future increases.
- **Accountability.** Despite the delegation of authority to local entities, states need to maintain enough oversight over delegated funds to be able to describe their use and importance and to actively advocate for their support. If state agencies become so divorced from delegated programs that they cannot effectively be both accountable and credible advocates, political and financial support for the programs and supports will be undermined.
- **Targeting.** A great deal of the authority under consideration for delegation in these efforts revolves around the ability to target funding toward those seen as most in need, or to services that seem most appropriate or effective. In a block-granting or devolution process, states delegate the responsibility for such targeting to others, usually to a local level of government. Often states are ambivalent about letting go and, like the federal government, attempt to have it both ways--hence the creation of such oxymorons as categorical block grants or earmarked funds within blocks.
- **Leadership.** States need to consider how, if at all, they can continue to exercise a leadership role once delegation of authority or block granting has occurred. States should be fully aware that their influence is apt to drop sharply as their role in decision making and priority setting diminishes.
- **Financing.** Changes in relationships between state government and local entities require financing and related accountability systems that support the new governing responsibilities. Systems need to be developed, for example, that identify how funds are being used without creating undue administrative burdens. States will need to find ways to bring their policy and program priorities to bear without undermining the delegation of authority. Care should be taken to establish funding mechanisms that balance the competing agendas of local control

and effective services. How does the state, in a delegated system, provide incentives for particular (favored) uses--toward prevention, community care, or serving those most in need?

- **Monitoring.** New governance entities can only become real as they develop the structure and capacity to carry out governance functions. Often no financing track exists from state government to these local entities, and these systems will have to be created. The hope of reformers is to develop new methods of doing traditional tasks--budgeting, accounting, reporting, payroll, etc.--so that the new entities can be less bureaucratic, more grassroots, and more flexible and informal, and so they will not turn into smaller versions of the old systems they seek to replace.
- **Addressing Barriers.** New relationships, newly formed bodies, and the expected new responsibilities coming from federal delegation will provide states with opportunities to invent new ways of raising funds, spending them, accounting for their use, and evaluating their impact. Experiments with altered governance structures can be supported through temporary funding structures only as long as they remain temporary pilots or localized exceptions to the rule. If, however, they are to be brought to scale, made permanent, truly institutionalized--if the love affair with localness is to continue and move beyond rhetoric--states will need to invent financing systems that support the new governance structure, and very real structural and financing barriers will have to be addressed.
- **Providing Adequate Support.** Despite the ambition of many reform efforts and the hope placed in them, many states lack the resources to take reforms statewide and to institutionalize them. The lack of state funds, or perhaps more important, a state funding mechanism, to support innovation, experimentation, development, or transition causes these efforts to be dependent on foundation grants or other soft money that is often insufficient for anything but relatively small and fragile pilot programs.

Budget and Planning Processes

State governments are working to create budget and planning processes that assess the impact of government-funded or -delivered programs and that tie future funding decisions to results. These efforts, directly targeted to the financing processes that states use to allocate resources--i.e., their budget processes--are attempts to rationalize, and perhaps depoliticize, the budgeting process.

Many hope that, in a period when resources for education and other children's services are expected to be scarce, outcome orientations in budgeting will help ensure that available funds are spent effectively. Credibility with the electorate, now at all-time lows, may depend as well on such "good government" efforts.

Oregon's Benchmarks and North Carolina's Performance/Program Budget (PPB) stand out as efforts to increase the prominence of outcome and results orientations. Their efforts and progress to date are described later in this report. Both have made early progress toward

changing the language of the political debate and have raised the issue of measuring impact and establishing measurable goals to new levels of prominence.

From a financing perspective the desire to more closely link the budgeting process to program outcomes poses a number of very difficult challenges for state policymakers. In particular, they must tackle the following issues:

- Inventing new budget structures.
- Overcoming the limits of evaluation technology.
- Whether to support a public-private perspective.

Inventing New Budget Structures

States wishing to move to more results-oriented budget processes are finding that such a move involves more than adding on to the traditional budget; rather, it requires the development of new and very different approaches and structures. Agencies will have to account for costs differently; program evaluation will have to become more prominent; and the legislative and executive branches will have to learn to think and act differently with regard to planning and budgeting. Real change in well-entrenched budget processes can be accomplished only over a period of time and, most likely, multiple budget cycles. Strong leadership and long-term commitment are therefore essential to success.

As North Carolina noted in the creation of its PPB, traditional line item budgets do not group expenditures by purpose or program; instead they cluster them by expenditure type--e.g., salaries, rent, etc. To create a match between an expenditure and a result, i.e., to know what impact the expenditure had, will require states to do wholesale restructuring of their budgets.

In addition, as North Carolina has also noted, multiple state agencies often are working with overlapping populations to achieve the same or related goals. Measuring only one agency's effort would underidentify state expenditures toward an outcome unless, as is done in the PPB, budgets are constructed across agencies and departments.

Most states and the federal government have legislative committee structures that are not conducive to looking across agencies or sectors. These oversight committees typically look at only one piece of the children's services puzzle, and they exercise considerable power and influence, not easily given up, within that sphere.

Overcoming the Limits of Evaluation Technology

Even in the best of scenarios it is difficult to measure the impact of education and other children's services: too many variables intervene, controlled experiments are controversial, impacts often take a very long time to appear, and some things that we "know" are good for children do not show the results we expect. Budget processes seeking to reward "what works" may therefore settle for the most concrete of outcome measurements--test scores, numbers served, etc.--even though the real value of these efforts may be found in much more nuanced impacts such as self-esteem, confidence, and mastery.

Moreover, the problems inherent in evaluating these efforts are frequently compounded by a lack of support for serious and sustained program evaluation, for data collection and

analysis, and for human development research. States simply cannot expect to move to a "what works" orientation without spending the money to find out what does work, yet this kind of expenditure is extremely vulnerable in tight times. The danger exists that budgetary structures will be developed in hopes of supporting "what works", but that very little credible evidence will exist to sort out effective from ineffective efforts. Lacking real data, a politicized results-oriented budget process may be little better than the process it replaced.

Supporting a Public-Private Perspective

One of the central issues that must be addressed by those creating new budget and planning structures is how effectively states can create the mechanisms necessary to directly tie measurable results to resource allocation. Casting the net wider than state government may have both pluses and minuses in this regard. While it is certainly right to note that many things outside of state government have an impact on conditions in the state, and while it is politically important to forge public-private partnerships in pursuit of goals, the task of measuring the results of virtually everything done in a state is clearly unfeasible. Some middle ground needs to be found between evaluating the performance of a state-delivered or -funded service as though it were the only input and casting so wide a net that measurement can only be at the most global level.

The experiences of North Carolina and Oregon illustrate some of the dilemmas encountered by policymakers attempting reforms. The North Carolina and Oregon efforts are alike in that both attempt to assist policymakers and the public in understanding what is being done to address issues of state importance and what impact those efforts are having. They differ in a number of ways as well. One fundamental difference lies in how they treat nongovernmental activities and the impact of private efforts on conditions in the state.

Although closely linked to state government, the Oregon Benchmarks effort has its home in a public-private entity, the Oregon Progress Board, and has support in local government and the business community as well. It sets goals and measures progress not only for state government but for the state as whole. North Carolina's PPB, on the other hand, is very much an inside-the-state-government effort, designed specifically to alter the state government's budget process. As such, the PPB is less about public awareness and commitment to statewide goals than about the technology of tying performance to results.

Property Taxes, Education, and Children's Services

Much of what drives state government is only indirectly related to education and children's services. The economy, the public mood, the politics of the moment, and a great deal else that is going on in a state's environment outside of children's issues may have a profound impact. The most dramatic current example is the cross-state revolt against taxes in general and the property tax in particular.

In state after state, revenue discussions are focused on property tax issues, specifically on getting property taxes lowered. In a number of states, property taxes are perceived to be unacceptably high, unfair in their impact, and politically insupportable in their current form. Since the property tax has been the backbone of education financing in many states, and to a

large extent of human services financing as well, the public's dislike for this tax, quite apart from attitudes about the services it pays for, is having an enormous impact on education and other children's services. That impact is being felt in a number of ways:

- Reduced local and increased state support.
- Reduced overall support.
- Increasing education equity.

Reduced Local and Increased State Support

The passage of property tax limitations or property tax relief has had an effect on education and other children's services in many states. In states where the property tax revolt has reached the level of property tax freezes or rollbacks, local support for education has dropped dramatically and state support has, to some extent, replaced it. State funding in Oregon, for example, increased from one-fifth of education costs in the 1970s to about one-third of total costs in 1992. In a more dramatic shift, state support for education in California increased from one-third of all costs to two-thirds over the same period following the passage of Proposition 13. Michigan drastically reduced the share of education funded by the property tax.

A move from the property tax to an income or sales tax most often also moves the revenue-raising responsibility from the local to the state level. Few localities have income or sales tax levying capacity. That the reduction in property taxes comes by way of a change in education funding, rather than police or highways or environmental aid, is simply a by-product of state revenue arithmetic: there is rarely another feasible way to move large-scale costs from property to sales or income taxes. Most other alternatives would move too few dollars to matter.

It will be interesting to observe the extent to which increases in state revenues for education will result in increased state control of education's program preferences, resource allocations, goal setting, and standard setting. An inadvertent and perhaps unwanted shift to state-level school control may be a by-product of the property tax revolt. Voters typically do not view property tax reductions in terms of choosing a level of government to control schools--they simply hate the property tax. But in the long run, for public education, the question of whether revenues are raised through sales or income or property taxes may prove less important than which level of government raises the revenues and controls the system.

Reduced Overall Support

While reducing property taxes is popular, raising sales or income taxes is not. Increasingly, governors and legislators may see political advantage in taking a billion dollars of education costs off the property tax (for example) and offsetting that with a half-billion worth of increased sales/income taxes and a half-billion worth of state government cuts. Children's advocates may be rightly concerned that other children's programs, be they health, social services, or recreation, are ripe for just these sorts of cuts. Noneducation children's services are not protected by state constitutional requirements, are often targeted to low-income

children, and may be particularly vulnerable if states are freed of some federal matching requirements, as now proposed.

State budgets in the 1990s are made up of a few very large cost centers--public education, state universities, health care, human services including public welfare and child welfare, and the prison/corrections system. Of these, human services programs, particularly if freed of federal mandates, seem to be relatively easy targets for budget cutters. In the minds of some, increasing state responsibility for education would threaten to exacerbate already existing competition for resources between education and other children's services.

Increasing Education Equitv

States have also used the movement away from property taxes as an aid to producing more equitable funding structures. The mechanics of state equity formulae are easier to develop and manage, it seems, when the bulk of resources come from revenues raised statewide. In discussions with a number of states, however, it was clear that education equity was a very secondary consideration when moving away from property taxes, except in the presence of court intervention. Equity may have added support for reducing property taxes but was not driving the tax revolt movement.

Ballot Initiatives and Dedicated Revenues

Traditionally, governors and state legislatures passed budgets that reflected their consensus view of the needs and priorities of their constituents. It seems a sign of our times that in some states the range of options available to elected officials has been narrowed. Two processes, ballot initiatives and prededicated funding, have for better or worse reduced the ability of state governments to raise and allocate resources.

Increasingly, direct governance processes such as ballot initiatives and referendums are playing a role in American politics and affecting the financing of education and children's services. California's reaction to property taxes in Proposition 13 had a profound impact on the state's system of services and care. California went from 15th nationally in 1970 in the rate of per-pupil spending to 33rd in 1992, and it was 48th in the nation in the rate of increase of spending for education from 1970 to 1992. In Oregon, a similar ballot initiative created a freeze in property tax rates that had a lesser impact, but only thanks to the cushioning effect of rising property tax values. Other examples of direct democracy include, Vermont, where school district budgets are subject to annual passage by the residents of the district in a town-hall-like process, and Michigan, where the ultimate solution to the property tax deadlock required the passage of a statewide referendum.

We have not, in this report, documented the trend toward direct passage of legislation through referendum across the states, nor have we fully examined the impact of this trend. What is certain is that in some states a well-conducted and well-funded ballot initiative or proposition can result in rapid, sweeping changes and systemic volatility quite unlike those that usually result from legislative deliberations. If, in fact, further study identifies a trend toward direct public legislation, the impact of such a trend should be carefully assessed by those advocating increased devolution of authority to states.

The emergence of processes to predistribute revenues as a way of protecting service systems has also become an important trend. This practice is growing as a result of fears of system volatility and the erosion of support for social programming. Again, California seems the leader with Proposition 98, which sets the level of education funding as a proportion of the total state budget and seeks to protect education from budget cuts. Michigan's tax compromise included the dedication of specific proportions of income tax revenues to support public education. Dedicating specific revenues to fund specific services may also serve as a defensive measure in some states. In Wisconsin, children's service advocates considered recategorizing and repackaging long-standing block grants to protect against threatened reductions.

In real-world budget processes, advocates, state agencies, and legislators have to make difficult choices between their long-term aspirations and their short-term situations. While many may favor decategorized funding as a matter of principle and are fully aware of the knots they tie when preset percentages of revenue are dedicated to specific services, they are also rightly concerned with protecting existing resources or gaining support for needed increases in funding.

Observations and Conclusions

The seven states reviewed are engaged in exciting and promising efforts to alter the way education and other children's services are governed, financed, and delivered. States that face resource constraints and difficult political times are going against the grain and trying to make improvements in systems that most would agree are broken. As a result, the federal government is looking to delegate increased authority to states, and reformers frequently cast state governments in the central role in system redesign.

It is hard to imagine significant systemic reform without the active and enlightened participation of states. Nonetheless, it is important to be mindful of the realities of state-level governing, to not expect more than states can reasonably deliver, and to appreciate the early stage of the efforts we reviewed. It will do states no good, and certainly children no good, if we simplistically believe that increased state authority will automatically result in solutions to systemic problems.

Specifically, and finally, it is important to highlight a number of critical challenges for states today. How states meet these challenges will have considerable impact on the success of education and children's services for some time to come.

1. **Building the Necessary Local Capacity to Serve Children Effectively.** The capacity and skills present in neighborhood-level and/or school-building-level entities need to be enhanced if these levels of government are to take on new roles and if delegation is to produce the desired results. Delegating authority from the federal government to states may in practice mean delegating to local government or, in some instances, beyond. Financing and formal governance systems necessary to support these new relationships need to be developed where none exist today.
2. **Maintaining State Support for Programs Administered at the Local Level.** Delegation to a lower level of government, from federal to state or state to local,

may result in reduced long-term political support and reduced or flattened funding over time. Those concerned with adequate programming and support need to develop the means to avoid paying this price for delegation.

3. **Improving the Technology for Linking Planning, Budgeting, and Evaluation Systems.** While measuring results and developing outcome orientations offers the hope of improved services, the technology for linking planning, budgeting, and evaluation needs considerable development. States, subject to the usual political pressures, will be expected to quickly determine what works while that question is in fact far more complex than the public understands.
4. **Devising New Governance Relationships.** In at least some states, the desire for increased local control conflicts with efforts to provide more equitable funding arrangements by relying more heavily on state taxes. Policymakers must grapple with how to best ensure local control of funds raised at the state level or how to develop local revenue sources that do not have the perceived negative attributes of property taxes. Ironically, the movement away from property taxes as the primary source of education funding, with the resultant move to state-level taxation, has the education system in some states moving counter to its own reform agenda. These states find themselves moving funding responsibility to higher levels of government while at the same time calling for and attempting to support local-level, decentralized, and sometimes building-level decisionmaking.
5. **Finding the Appropriate Role for Uniform Standards Across Jurisdictions.** Nearly all of the current reform trends favor increased differences from state to state and community to community in the availability and design of education and other children's services. How much tolerance exists for what kinds of differences remains to be seen. Further, it is not clear how, in a much-delegated service world, we will even know what services are being made available, to whom, and with what impacts across and within states.
6. **Securing Funds to Make the Necessary Transitions.** The needs for information system development, research, evaluation, and staff retraining all come at a time when funds for such needed operational costs are available only through the reduction of services. Despite calls for government to become more "businesslike" public entities lag far behind in providing the kinds of transition and retooling funds that business long ago learned to expect and provide.
7. **Balancing Politically Favorable Cuts in Current Spending Areas with Potential Long-Term Savings from Investment in Children.** Finally, at least in the short term, most state governments are riding the same political waves as the federal government. The safe and successful political position is for less government, more accountability, fewer programs, and lower taxes. Those seeking to cut are clearly on the offensive, while those opposing cuts are trying to hold onto current levels of support. Despite increases in child poverty and other negative indicators, almost no elected official dares to advocate for increased resources. Hence, in most states, opportunities to save funds will be taken even if the savings are short term. Freed

of federal restrictions, no state will choose to spend more, and very few may resist the temptation to cut back.

CALIFORNIA

Summary

California's experience with shifting state and local fiscal responsibilities highlights the significant impact that tax and expenditure limitations may have on the financing of education and other children's services. Numerous citizen initiatives and state legislation have moved the locus of responsibility for funding many children's services in California from the local to the state level during the past 20 years. Two tax and spending limitations: Proposition 13, which limits property tax increases and the ability of the legislature to increase state taxes, and Proposition 98, which provides a minimum funding guarantee for education, are particularly noteworthy. These tax and expenditure limitations have encouraged advocates to try to earmark funds for particular uses, increased reliance on fees and other nontax revenue sources and forced policymakers to consider the costs of campaigns against ballot initiatives when making policy decisions.

Recent political and fiscal pressures on state government have encouraged state policymakers to continue restructuring the state-local funding relationship, moving program responsibility back from the state to the local level, and to explore new methods to provide more integrated services for children and families. Two recent state initiatives, Healthy Start and the Youth Pilot Program, provide excellent examples of initiatives that integrate children's services and realign the responsibilities of state and local government in California.

Healthy Start uses additional funding to restructure funding and governance relationships. Created in 1991, Healthy Start funds serve as a catalyst to realign responsibilities by providing time limited grants to local partnerships. The initiative encourages school districts to collaborate with local health, mental health, and social service providers to restructure the way services are delivered. Between 1991 and 1995, approximately 150 partnerships received funding.

The Youth Pilot Program (A.B. 1741) realigns state and local responsibilities by allowing selected localities to redirect existing allocations for numerous children and family programs. The program offers five competitively selected counties the opportunity to access huge amounts of funds through differential use and will provide state and local policymakers with evidence of how increased flexibility in the state-local relationship will affect desired outcomes.

CALIFORNIA AT A GLANCE

Governance Structure

Executive

Governor elected for 4-year terms

Governor may serve 2 terms

Chief education official elected by public

Citizen Initiatives

Changes to constitution permitted?	Yes
Changes to statutes permitted?	Yes

State Budget Process

Frequency of budget cycles	Annual
Must governor submit balanced budget?	Yes
Must legislature pass balanced budget?	No
Must governor sign balanced budget?	No
Can state carry over deficit?	Yes
Can governor item veto specific amounts?	Yes
Can governor item veto other language?	No
Votes needed to override veto?	2/3 Elected
Votes needed to increase revenue?	2/3 Elected
Votes needed to pass budget?	2/3 Elected

State Fiscal Capacity and Tax Effort

Fiscal Capacity

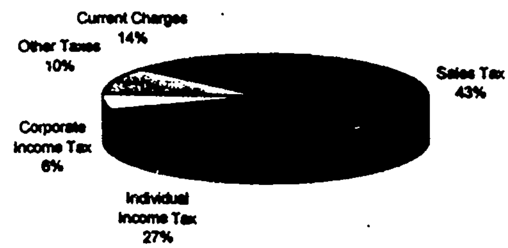
Average per capita income	$20,880
Fiscal Effort (per $100 of personal income)	
State tax effort	$7.64
Local tax effort	$3.89
User charges	$2.82

Demographics

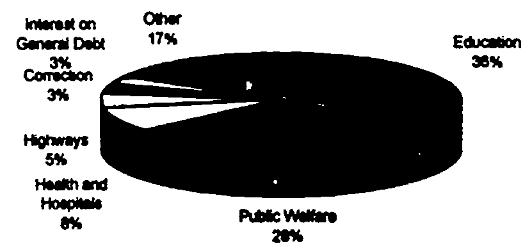
Population (millions)	31.21
Population under 18	27.5%
Population in school	16.8%
Low birth weight babies	5.9%
Children in poverty	22.7%

State Government Budget

Total General State Government Revenues, 1993



Total General State Government Expenditures, 1993



Resources for Education and Other Children's Services

Education

Total spending per pupil	$4,746
Funding from federal sources	7.6%
Funding from state source	66.6%
Funding from local sources	25.7%

Other Children's Services

State spending per low-income individual on:

AFDC	$643.78
Medicaid	$133.60
Foster care	$83.49
Maternal and child health block grant	$9.69
Child support administration	$17.02

Introduction

Citizen initiatives and state legislation have moved the locus of responsibility for funding many children's services in California from the local to the state level during the past 20 years. Recent political and fiscal pressures on state government are encouraging state policymakers to restructure the state-local funding relationship and to explore new methods to provide more integrated services. Two examples of recent state initiatives to restructure the state and local funding streams for children's social programs are provided by the Healthy Start program and the Youth Pilot Program. Other methods to realign the state-local relationship with regard to child welfare programs have also been proposed as the state continues to grapple with the appropriate roles for state and local governments to play in funding children's services.

Background

Proposition 13, passed in 1978 by 65 percent of the electorate, in effect shifted the responsibility for funding many education and social service programs from the local level to the state level. The initiative established maximum levels on both the absolute level and the rate of growth of local property taxes. (See Box.) These tax limits, in turn, substantially reduced the ability of local governments and school districts to raise revenue. Increased state aid mitigated the lost property tax revenues somewhat. Proposition 13, however, had the unintended consequence of transferring much of the responsibility for education and human services from counties to the state.

> **Proposition 13**
>
> Proposition 13 limited local property tax rates to 1 percent on assessed property values for both residential and commercial properties. Immediately before passage of Proposition 13, local property tax rates averaged 2.67 percent. It also limited increases in assessed property values to no more than 2 percent per year except when property is sold.
>
> In addition to limiting property taxes, Proposition 13 placed a direct constraint on the ability of state lawmakers to raise taxes. The proposition requires that any new state taxes that generate revenue increases must be passed by at least two-thirds of the legislature. In addition, any new local tax increases designated for a specific purpose must be approved by at least two-thirds of the people. The requirement that legislators establish a "supermajority" to pass any tax increases has made it difficult to finance many initiatives. In the opinion of one interviewee, "One-third of the legislature is always against whatever is proposed."

Because of the sheer size of some of California counties, this shift in funding responsibility represented a massive transfer of funds. San Diego County, for example, was home to more than 2.7 million people in 1994. In 1994-95, the county had an annual budget of $2.1 billion.[1] As of October 1994, more than 428,000 elementary and secondary students

[1] County of San Diego Budget Office, Fact Finder, 1995 edition.

were enrolled in public schools within the county[2], making its student population larger than the student population of many states.[3]

In response to recent downturns in the state's economy and the web of tax and expenditure limitations placed on state government by both the citizens of California and special interest and advocacy groups, state policymakers have increasingly proposed ways to modify service delivery approaches to restructure, or realign, state and local program and funding responsibilities for human services. The various realignment initiatives seek to exchange state funds for increased local authority and responsibility over the delivery of services, including children's services.

The first major realignment after the passage of Proposition 13 occurred in 1991. State funds for a variety of health and social service programs were raised through an increase in the sales tax and vehicle license fees. Revenues from the sales tax increase were placed in a special state fund and allocated to counties using a caseload-driven formula. This strategy protected the funding of the services from the requirements of Proposition 98, which designates what proportion of general fund revenues must be dedicated to education. (See Box.)

Proposition 98

Passed by the voters in 1988 and amended by Proposition 111 in 1989, Proposition 98 mandates how a portion of state spending must be prioritized by state lawmakers through a minimum funding guarantee for education. It requires the state to maintain a level of funding equal to the greater of the percentage of general revenue funds appropriated in 1986-87 for K-14 education or prior-year service levels.

Several factors prompted this state-local realignment. First, certain services--including mental health services, indigent health services, and some social services--were targeted for large reductions in state funding because of significant state budget deficit. Efforts to realign the state-local relationship sought to preserve these services by creating a new funding mechanism for them. Second, the realignment responded to concerns that the system lacked incentives to move those with mental health problems from more expensive state mental health institutions to less costly community-based services, or to move foster care children from out-of-home placements.

The experience of the realignment has been mixed. On the positive side, many believe it successfully established a stable commitment to fund a set of services that otherwise might have disappeared. In addition, it shifted financial incentives toward less costly, community-based services and allowed decision-making flexibility at the local level. Furthermore, the

[2] San Diego Department of Education, telephone conversation, May 4, 1995.

[3] Although not strictly comparable to the figure given above, 1992 elementary and secondary student enrollment figures provide some indication of the size of San Diego County's student body population. In the fall of 1992, the student population of the county exceeded that of 16 states and the District of Columbia. (National Center for Educational Statistics, *Digest of Education Statistics 1994*, p. 54).

realignment facilitated the development of outcome accountability measures for mental health services through a very inclusive process involving clients, providers, community representatives, and government officials. On the negative side, many counties ran into financial difficulties after the 1991 realignment, especially since California's unanticipated economic downturn resulted in an unusual lack of growth in the sales tax. In addition, some view realignment as a method of balancing the state budget by shifting increasing costs and a limited amount of funds to counties.

Recent poor economic conditions have continued to place pressure on state officials to reduce state government spending and alter the relationship between state and local decision-making and funding responsibilities, while seeking to provide more comprehensive, community-based services in order to better serve the needs of children and families.

Selected Initiatives

Two recent state initiatives, Healthy Start and the Youth Pilot Program integrate children's services and realign the responsibilities of state and local government in California. The Healthy Start program uses additional funding to accomplish this goal, while the Youth Pilot Program redirects existing allocations.

Healthy Start

Healthy Start was created in 1991 to provide comprehensive integrated services for children and families at or near schools.[4] The initiative seeks to integrate services traditionally funded through a combination of state and local public and private funds. In particular, it encourages school districts to collaborate with local health, mental health, and social service providers to restructure the way services are delivered. Healthy Start serves as a catalyst to realign the funding responsibility by providing additional state funds to participating sites via time-limited grants to stimulate this process. Healthy Start has also supported recent county efforts to integrate and target services in response to reduced county budgets.

Grants are awarded to local partnerships on behalf of schools, groups of schools, and district or county offices of education through a competitive process. This funding serves as "glue" or "seed" funding to provide support for services provided either at the school site or alternative service delivery sites.[5] Programs must focus on schools with low-income students and/or students with limited English proficiency. Within these schools, Healthy Start is targeted toward assisting low-income students. Most (at least 90 percent) of the grantees must have student populations with at least 50 percent of the students eligible for AFDC or free or reduced price lunch.

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[4] See Hayes, Lipoff and Danegger, *Compendium of Comprehensive, Community-Based Initiatives: A Look at Costs, Benefits, and Financing Strategies*, a Finance Project working paper, July 1995, for more information.

[5] Some grantees serve multiple schools at satellite family service centers; others do not base their services at a particular location but feature a team of service providers who provide services to participants.

The state awards both planning grants (which vary in length from one to two years) and three-year operational grants. Sites receive a maximum $50,000 planning grant. Operational grants are awarded at a maximum of $300,000 over a three-year period. Grantees may also receive a $100,000 supplemental grant for start-up costs.[6] Between 1991 and 1995, 250 partnerships received planning grants on behalf of 766 schools, and 149 operational grants were awarded on behalf of 469 schools.[7] As a result, in 1993-94, approximately 230,000[8] of the 5.2 million children[9] educated in California's schools were served in schools with operational grants. During the same year, planning grants were awarded to 104 schools.

The Healthy Start program is administered through the Department of Education, in part because the Proposition 98 constraint would have required further cuts in noneducation spending if Healthy Start had not been designated as an education program for the purposes of Proposition 98. As a Proposition 98 expense, therefore, Healthy Start reduced the funding available for other education programs on a dollar-for-dollar basis. The administration of Healthy Start through the Department of Education has made it the *de facto* lead agency. Policy guidance is provided by the California Partnership for School Linked Services, a partnership of collaborating agencies that includes the superintendent of public instruction, representatives from the governor's office, cabinet-level officials, state department directors, and a group of private foundations.

Individuals interviewed stressed that Healthy Start funding is not intended to purchase new services but to serve as glue or seed money for the provision of more comprehensive, integrated services for children. Thus, no more than 50 percent of funds can be spent to purchase direct services.[10] One official estimated that, on average, 70 percent of the funds are spent on coordinating services. Healthy Start sites are expected to pool, blend, and redirect local funds to the extent possible, and most sites have pursued these arrangements by their third year. Initial evaluations of the program found that many partnerships leveraged their resources by soliciting the involvement of private or community agencies (which constituted more than 40 percent of all collaborating agencies).[11]

The specific Healthy Start services offered vary by site, but nearly all provide education and health services. In addition, sites provide some combination of mental health counseling, parent education, peer support, basic needs assistance, family preservation services, probation, child care, or dental services. Studies of the program indicate that Healthy Start initiatives are influencing the way services are provided so that they are more comprehensive, integrated, school linked, accessible, family focused, prevention oriented,

[6] See California Department of Education, Request for Applications, Senate Bill 620, p. 24-25.
[7] California Department of Education, Healthy Start Support Services for Children Act 1992-1995.
[8] California Department of Education, Request for Applications, Senate Bill 620, Healthy Start Support Services for Children Act 1992-94.
[9] Governor's Budget Summary 1995-96, p. 134.
[10] California Department of Education, Request for Applications, Senate Bill 620, Healthy Start Grant Application Materials, p. 25.
[11] Mary Wagner et al., "A Healthy Start for California's Children and Families: Early Findings from a Statewide Evaluation of School-Linked Services," p. 3.

and culturally appropriate. Moreover, initial evaluations suggest that these initiatives have had positive impacts. Over a six-month period, Healthy Start initiatives significantly reduced reported deficiencies of basic needs such as food, clothing, emergency funds, transportation, and child care. The proportion of youth over 16 who were unemployed also decreased. Positive impacts were experienced in providing health care and reducing mental health problems. The impact of the program on more complex or difficult issues, such as those associated with family functioning, parental involvement, or the involvement of youth in high risk activities, did not show significant change. [12]

Although sites receive grants to implement the program, grants are time limited. Hence, the state has worked with local sites to develop alternative funding streams after their grants run out. The state has followed three main strategies to provide continuing funding for Healthy Start: exercising the LEA Medi-Cal Billing Option, claiming Medicaid administrative dollars, and securing additional funding from the legislature.

The LEA Medi-Cal Billing Option aims to designate schools as Medicaid providers.[13] To date, this option has not generated as much revenue in the short term as anticipated. The legislature has appropriated approximately $20 million annually to Healthy Start, while the LEA Medi-Cal Billing Option has generated approximately $4 million.[14] State personnel indicated several reasons for this. First, the schools have considerable difficulties matching school data to Medicaid data. Although it appears that some of the problems have been addressed since original attempts were made to match data, the initial difficulties discouraged private billing agents from participating in the process; the lack of data on eligible recipients seemed to outweigh the potential profit that might accrue to such firms. Second, because the Medicaid billing option is being made available to all schools and not just Healthy Start sites, the Department of Health Services expressed concern that large increases in school-based Medicaid billings would have large budgetary implications for the state. Although other states have pursued this option, California officials have found it to be an unstable short-term solution.

Tapping into Medicaid administrative dollars seems to be less attractive than the direct billing option as the district must submit its claims through the county. Furthermore, there are no guarantees that the funds must be later used for funding services to children and families.

Finally, the Department of Education has proposed assisting sites with the transition to alternative funding sources and has considered requesting transitional funding from the legislature to assist the various initiatives during this phase.

[12] Mary Wagner et al., p. 7-9.
[13] See California Department of Education, Senate Bill 620, Healthy Start Grant Application Materials, p. 28-29; "California's Initiative for Comprehensive Integrated School-Linked Services," Briefing paper, p. 8-9.
[14] Telephone interview, California Department of Education.

Youth Pilot Program (A.B. 1741)

In 1993, the California legislature passed legislation that established another initiative to test mechanisms for improving service delivery while shifting the responsibilities between state and local governments. The legislature voted to create a five-year demonstration authority called the Youth Pilot Program (often referred to as Assembly Bill 1741 or A.B. 1741) to allow selected counties the flexibility to redirect existing state funding streams, rather than allocating glue money to assist counties in coordinating existing services. The legislation permits five competitively selected counties to blend funding from a variety of child and family services programs in order to create innovative, integrated services strategies. The stated purpose of the demonstration is to test strategies that (1) are locally focused and controlled, (2) create integrated service delivery systems, and (3) use blended funding streams.[15] Thus, the initiative will examine how changes in the state and local relationship affect desired outcomes. County staff added that the program will also test the ability of state governments to truly allow local governments the flexibility to design and administer programs for children and families.

Competing counties were required to focus on low-income areas, which they were to define, and to develop proposals through an inclusive local planning process, which included a community needs assessment. They also had to develop measurable child and family outcomes that would be monitored over the course of the demonstration.

The state is charged with providing technical assistance to the counties to help them obtain the needed federal and state waivers. A group of deputy commissioner-level staff from each agency involved will work toward this goal by ensuring high-level attention both to meeting county needs and to resolving conflicts between state departments. Although no statewide evaluation is planned, each county was required to submit evaluation plans. State program staff intend to seek nonstate support for a statewide evaluation.

Unlike the Healthy Start program, the Youth Pilot demonstration program does not provide new funding for participating jurisdictions. Instead, selected counties are authorized to transfer some or all of their allocated funds from fifteen different children and family programs to a county Child and Family Services Fund and to redirect those funds in ways the counties feel best address the needs of children and families. Despite the absence of new program funds, the Youth Pilot Program offers participating counties the opportunity to access huge amounts of funds through differential use. Counties must draw on the funds of at least four of the following services:[16]

1. Adoption services
2. Child abuse prevention services
3. Child welfare services
4. Delinquency prevention services
5. Drug and alcohol services

[15] California Health and Welfare Agency, Request for Application, Assembly Bill 1741, p. 2.

[16] California Health and Welfare Agency, Request for Application: Assembly Bill 1741, Appendix F.

6. Eligibility determination
7. Employment and training services
8. Foster care services
9. Health services
10. Juvenile facilities
11. Mental health facilities
12. Probation services
13. Housing
14. Youth development services
15. All other appropriately identified and targeted services for children and families

In early December 1994, the state selected the five counties from the ten that applied to participate in the pilot program: Alameda, Contra Costa, Marin, Placer, and San Diego counties. State staff noted that the proposals generally did not address large numbers of children and families, nor were they broad in scope; instead, they usually focused on issues surrounding the child welfare system. They offered several possible reasons for this fact. First, they postulated that counties may have experienced difficulty in gaining broad cooperation from different agencies since it is often hard for agencies to relinquish control of funds and blend them with other agency's funds. Second, they noted that child welfare may be the area of greatest need and concern to the counties.

The Effects of Tax and Expenditure Limitations

The various tax and expenditure limitations are critical forces that shape the way services for children and families are financed in California. However, it is unclear whether these restrictions help or hinder the provision of effective children's services in California.

Advocates and policymakers portray the constraints imposed by Proposition 98 as both positive and negative factors. On the positive side, they appear to have protected spending for education (although there is some disagreement about the extent of the protection). However, many indicate that this protection has diminished over time and that what was once a floor on spending levels has now become a ceiling. On the negative side, noneducation service providers feel that tight state budgets and the priority placed on education by Proposition 98 has caused unjustified cuts in their programs.

Likewise, the various constraints imposed on the budget allocation process (e.g., voter-imposed tax and expenditure limitations) were viewed differently. In addition to their effects on the state-local funding relationship, these constraints have done the following:

- Encouraged links between special revenue sources and particular areas of spending. While these links allow policymakers to avoid redirecting their resources toward protected spending categories, they carry several disadvantages. First, there is often a poor fit between the characteristics of the tax and the program's needs. Second, it is more difficult for policymakers and service providers to adjust spending levels as the needs for different programs change.
- Stimulated greater use of fees and other nontax revenues as a method for paying for services.

- Led many advocates to formulate strategies to earmark funds for particular purposes through ballot initiatives. Since the associated public relations campaigns are costly, both for the proponents and the opponents of earmarked funds, this has added another dimension to the decisionmaking process in California. Now, state officials and lawmakers must weigh the cost of waging a campaign against proposed ballot initiatives against the costs and likelihood of losing a ballot initiative.
- Focused considerable debate around what constitutes education. Since education spending is given priority, advocates of other programs related to education, children, or schools have tried to redefine their programs as educational in nature.
- Prompted the legislature to form a Constitution Revision Commission to review constitutional constraints on the legislature.
- United the interests of child advocates with untraditional allies. For example, some private property developers support proposals to reform the property tax system either to reduce or eliminate large disparities in tax burdens among property owners with similar properties or to increase property taxes for nonresidential sites. These proposals are often aimed at correcting some of the adverse effects of Proposition 13, such as shifting the costs and risks of building infrastructure (e.g., roads and parks) associated with new development away from local governments and communities and onto developers and new homeowners.

While the effects of the various restrictions on education and other children's services remain unclear, it does appear that the various restrictions have and will continue to shape the way in which children's services are financed in California.

Summary

State policymakers in California continue to look for new ways to restructure the relationship between state and local governments in their never-ending attempt to improve the way children and family services are provided in the nation's most populous state. Healthy Start and the Youth Pilot Program are two examples of these attempts: one provides small amounts of additional funding to help local providers link social services to the schools; the other gives local providers increased flexibility to administer large state programs. In addition, policymakers must continue to grapple with the role of tax and expenditure limitations imposed on state lawmakers by tne state's electorate through the ballot initiative process.

KENTUCKY

Summary

In 1990, Kentucky passed landmark legislation to completely overhaul its education system. The Kentucky Education Reform Act (KERA) altered nearly every facet of the state's education system, reforming the system's finances, governance structure and curriculum. Several years later, state policymakers continue to express considerable enthusiasm for the reforms.

This report discusses several components of KERA. Some focus specifically on finance reform while others focus on program delivery but restructure incentives in significant ways. They include:

- *Substantial increases in state funding for education.* Funding for education increased approximately 25 percent after the passage of KERA.
- *Modifications to the way in which state allocates aid for education.* State funding is based on a three tier system which establishes minimum spending and local effort levels.
- *Performance-based rewards for improving student performance.* KERA established a new accountability system that provides bonuses for school staff based on improvements in student performance.
- *Funding mechanisms for Family Resource and Youth Service Centers (FRYSCs).* A cross funding arrangement between the Department of Education and the Cabinet for Human Resources has encouraged staff from the two agencies to work together.

Thus, the Kentucky experience highlights both the vast changes made to the state's education finance system and the potential of carefully constructed funding mechanisms to provide incentives for agencies and departments to work together. In particular, the state's experience with FRYSCs illustrates that funding arrangements can encourage state agencies to work together to provide more comprehensive, coordinated services for children and their families.

KENTUCKY AT A GLANCE

Governance Structure

Executive

Governor elected for 4-year terms
Governor may serve 2 terms
Chief education official appointed by board

Citizen Initiatives

Changes to constitution permitted?	No
Changes to statutes permitted?	No

State Budget Process

Frequency of budget cycles	Biennial
Must governor submit balanced budget?	Yes
Must legislature pass balanced budget?	Yes
Must governor sign balanced budget?	Yes
Can state carry over deficit?	No
Can governor item veto specific amounts?	Yes
Can governor item veto other language?	No
Votes needed to override veto?	Majority
Votes needed to increase revenue?	2/3 Elected
Votes needed to pass budget?	Majority Present

State Fiscal Capacity and Tax Effort

Fiscal Capacity

Average per capita income	$15,442

Fiscal Effort (per $100 of personal income)

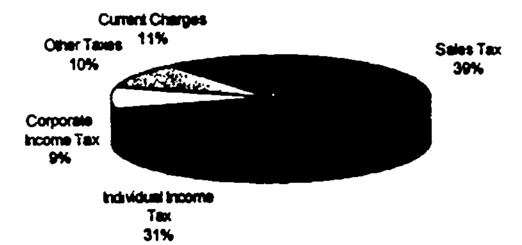
State tax effort	$8.67
Local tax effort	$2.63
User charges	$2.78

Demographics

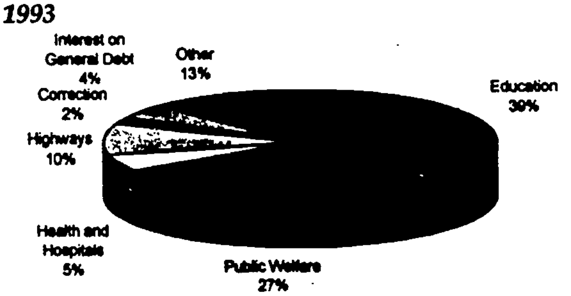
Population (millions)	3.79
Population under 18	25.6%
Population in school	17.4%
Low birth weight babies	6.8%
Children in poverty	24.9%

State Government Budget

Total General State Government Revenues, 1993



Total General State Government Expenditures, 1993



Resources for Education and Other Children's Services

Education

Total spending per pupil	$4,719
Funding from federal sources	10.2%
Funding from state source	67.5%
Funding from local sources	22.3%

Other Children's Services

State spending per low-income individual on:

AFDC	$103.00
Medicaid	$106.09
Foster care	$32.32
Maternal and child health block grant	$21.98
Child support administration	$13.67

Introduction

In 1990, Kentucky passed landmark legislation to completely overhaul its education system. The Kentucky Education Reform Act (KERA) was heralded by both state and national experts as extremely comprehensive and far-reaching. These sweeping changes were sparked by litigation that challenged the state's school funding methods. The court-ordered mandate, however, went far beyond that envisioned by the litigants, ordering the state to remake the entire education system. Thus, KERA altered nearly every facet of the state's education system, reforming the system's finances, governance structure, and curriculum.

Although five years have gone by since the passage of KERA, enthusiasm for the reform remains strong among many of Kentucky's policymakers. This report discusses several of KERA's components. Some are focused specifically on finance reform, while others focus on program delivery but restructure incentives in significant ways. The specific components discussed include the following:

- The substantial increases in state funding for education.
- Modifications to the way in which the state allocates aid for education.
- Performance-based rewards for improving student performance.
- The funding mechanisms for the Family Resource and Youth Service Centers (FRYSCs).

Background

In 1989, average per-pupil spending on education was below the national average in each of Kentucky's 176 school districts.[1] Several factors contributed to these low spending levels. First, the state's tax capacity was fairly low. In 1991, real per capita income in Kentucky was $15,442, 20 percent below the national average.[2] In addition, many of the state's residents were poor. In 1989, nearly one in five Kentucky residents lived in poverty and one in four of the state's children were poor.[3]

Second, tax fraud, poor management, and nepotism prevented many resources from reaching the schools or from being used in the most effective manner. For example, tax assessors kept tens of millions of dollars off the tax rolls in some areas. Property underassessment and the elimination of some property from the tax assessor's records reduced school revenue by millions of dollars. Moreover, in certain areas, school board members routinely hired their relatives and awarded patronage jobs in return for political support.[4]

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[1] "From Risk to Renewal: Charting a Course for Reform," Education Week, May 1993, p. 170.
[2] Gold et al., "Fiscal Capacity and Investments in Education and Other Programs for Children and Families," Background paper prepared for The Finance Project.
[3]

[4] See "Cheating Our Children," Lexington Herald-Leader, January 1990, for more details.

The Kentucky Education Reform Act

In an attempt to remedy the problems plaguing the education system, 66 property-poor districts filed suit against the state in the mid-1980s alleging that the state's system of financing education violated its constitution. In 1989, the Kentucky State Supreme Court agreed, issuing a decision unprecedented in the area of school finance. The court's ruling went beyond most school finance decisions and beyond the expectations of the districts that filed the suit. In *Rose v. Council for Better Education*, the court declared not only the system of school financing but the state's entire system of education unconstitutional.

The legislature passed and the governor signed the Kentucky Education Reform Act of 1990 in response to the court's ruling. Several forces combined to help lawmakers pass the sweeping legislation. First, strong public support in favor of reforming education had developed over the preceding year in response to a series of articles published in the state's three leading newspapers. The series focused on the political abuses in the state's schools and greatly heightened public awareness of these issues. Second, education experts from around the country provided external advice on the appropriate finance and education reforms. Finally, the fact that lawmakers had to deal with a wide range of issues made it easier to address the difficult issues effectively, particularly school finance issues. One policymaker emphasized the importance of the comprehensive nature of the reform to the overall success of the legislation, suggesting that lawmakers would have had great difficulty reaching an acceptable compromise if the legislature had been dealing only with the finance issues.

As noted, the reform package was extremely comprehensive. KERA contains three distinct but interrelated areas of reform: curriculum, governance, and finance. Each of the components is multifaceted and builds upon changes in the other two components. The focus of each component is described briefly below:

- **Curriculum Reform.** The curriculum reform encompassed a wide array of activities. The major areas of reform included changes in the areas of assessment, curriculum, extended school services, family resource and youth service centers, preschool, primary school, professional development, regional service centers, school-based decision making, and technology.
- **Governance Reform.** The governance reform components restructured state-local relations and were designed to reduce nepotism and corruption. They included a new board of education and an appointed commissioner of education. In addition, changes were made in the qualifications needed for local superintendents and boards of education. KERA also established a legislative Office of Educational Accountability to monitor the reform's progress.
- **Finance Reform.** The finance reform package contained several components. First, state aid was increased significantly. Second, the state restructured the way state aid is distributed. In addition, efforts to create new incentives for teachers and other children's services providers to offer more effective services led to the creation and use of new incentive systems and cooperative arrangements between agencies.

Level of Financial Support for Education

KERA significantly increased state aid to education, raising an additional $1.26 billion in tax revenue over two years. While some of these funds went toward noneducation initiatives, the majority of new funds were appropriated for education. In the 1990-91 school year, KERA increased education funding by $490 million. This translated into an approximate 24 percent increase in state funds, or an additional $378.7 million. Local revenue also increased significantly, growing by 25 percent.[5]

State policymakers increased revenue through changes in numerous tax mechanisms. In particular, the state increased the sales tax, modified the corporate income tax, and altered the state income tax to conform to the federal income tax. The deductibility of federal income tax was also eliminated, raising approximately $250 million in additional revenues.

In addition, local funds for education increased substantially. These increases were the result of changes in the way property was assessed and accompanying changes in the governance of tax assessment. KERA required all districts to reassess property values and to raise valuations to 100 percent of their full market value. In districts that fail to comply with these changes, the state can remove the property assessor from office and reassess the property.

A recent analysis of the first few years of the Kentucky reform provides data on how local officials chose to spend their additional resources. As a result of KERA, school spending increased in all school districts. Within districts, spending patterns changed only slightly after the reform as instructional expenditures increased by small percentages.[6]

Support Education Excellence in Kentucky

KERA created a new funding formula, referred to as Support Education Excellence in Kentucky (SEEK), for funding elementary and secondary education in the state. Several components of the SEEK formula are particularly important. First, SEEK establishes a minimum spending level, or foundation level, for each child's education. Second, SEEK requires each school district to provide local support for education. Third, SEEK is structured to allow school districts the opportunities to raise additional funds above those required by the state; however, districts must obtain permission from either the school board or the electorate to raise these funds.

SEEK's three funding components provide the incentives to accomplish these goals. The first SEEK component is an adjusted-base guarantee. This component guarantees that each district will receive the minimum expenditure for each child, adjusted for various factors (transportation costs, the number of at-risk children and exceptional children, and the number of children who must be educated at home or in the hospital because of illness). This level is set by the legislature and was $2,305 in 1990-91. In 1994-95, the level was set at

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[5] Jacob Adams, "School Finance Reform and Systemic School Change: Reconstituting Kentucky's Public Schools," p. 10.

[6] Jacob Adams, "Spending School Reform Dollars in Kentucky: Familiar Patterns and New Programs, But Is This Reform?"

$2,495.[7] This guarantee requires local districts to raise some of the funds locally.[8] The state then funds the difference between the amount raised through local taxes and the adjusted state minimum guarantee.

The second component, Tier I funding, provides additional state revenues to school districts that opt to raise additional local money to support education. The state equalizes local funding for school districts that raise up to 15 percent above their adjusted base guarantee. The local taxes required for this tier must be approved by the local school board but not by the voters. In the initial year of funding, district support for increased education funding surpassed the levels anticipated by the legislature. Nearly all districts (169 of 176) claimed Tier I funds,[9] and funds were distributed on a prorated basis. By 1992-93, however, the program was fully funded.

The final component, Tier II funds, allows districts to raise additional local revenue. Districts may raise up to an additional 30 percent of the funds generated by the adjusted base guarantee and Tier I. The Tier II funds are not equalized by the state and, unlike the funds raised in Tier I, require voter approval. This component acts as a cap to ensure that large disparities in spending do not create inequitable educational opportunities. Fewer districts levy Tier II funds than raise Tier I funds, and only one district has hit the cap imposed by this tier.

To ensure that education reform improved educational opportunities for *all* children in Kentucky, the General Assembly passed additional legislation in 1992 extending education reform to "state agency children," the more than 4,000 court-committed or at-risk youth who receive residential- and community-based services from the state. The legislation set up a new body, the Kentucky Educational Collaborative for State Agency Children (KECSAC), to reevaluate the state's method of providing for the educational needs of these children.

State support for the education of state agency children is calculated in the same manner as for other children in the state, using the SEEK formula. Thus, the state agency children are counted in the district's student count when calculating the base. The base is then adjusted for number of at-risk youth and, when appropriate, it is adjusted for different numbers of exceptionalities. In addition, there is further funding to reduce class size and ensure a long-enough school year.

Kentucky Instructional Results Information System

KERA also made sweeping changes to the state's accountability system, producing new incentives for teachers in the process. A new evaluation system, Kentucky Instructional Results Information System (KIRIS), was created to evaluate each student's educational progress. Evaluations are based on three types of assessments: open-ended short essays, performance events, and student work portfolios, rather than on multiple-choice tests.

[7] Commonwealth of Kentucky, *1994-1996 Budget of the Commonwealth*, p. EDUC-4.
[8] Districts must levy 30 cents for each $100 in assessed property value.
[9] Jacob Adams. "School Finance Reform and Systemic School Change: Reconstituting Kentucky's Public Schools," p. 10.

Students are graded and placed in one of four categories based on their score: novice, apprentice, proficient, or distinguished.

Schools receive an average score, and each school earns rewards and sanctions based on the school's progress over each biennium. In particular, schools are rewarded if their average test score increases by more than 10 percent of the difference between the proficient level and the school's average score. For example, if a school has an average score of 40, it would receive rewards if the score it increased by more than 6 points (10 percent of the difference between 100 and 40).

The first round of rewards was announced recently. Money from a rewards fund will be divided among the 38 percent of schools that qualified for awards. Although rewards average approximately $2,000 per teacher for the more than 13,500 teachers who qualified to receive a share, the funds are not allocated by the state to the individual teachers. Rather, certified personnel in schools that receive rewards vote on how to distribute the bonuses. Teachers may vote to distribute the bonuses among themselves only, to allocate some proceeds to other school personnel as well, or to invest the money in supplies or equipment. One plan distributed the money among teachers, aides, office workers, lunchroom staff, bus drivers, and other school staff based on an award schedule agreed on by the school's teachers. Another paid for steak dinners for the school's entire staff and contributed money to the 11th graders' activity fund. In addition to receiving rewards based on the school's improvement, district personnel are eligible to receive rewards if their district's performance passed state achievement goals.

Under KIRIS, schools that show declines in performance receive state assistance to improve classroom instruction. These sanctions were postponed by the legislature last year in response to questions about the assessment system. The average school score declined in approximately 4 percent of the state's schools over the past two years. The state sent in "distinguished educators" to assist these schools in improvement.

Family Resource and Youth Service Centers

The financial and management incentives created by KERA for the Family Resource and Youth Service Centers (FRYSCs) are another example of a KERA-inspired program delivery improvement. FRYSCs facilitate interagency collaboration among the various departments that serve the multiple needs of children and families. Family Resource Centers provide services for elementary-school-aged children and their families, while Youth Service Centers serve the needs of middle school or high school students and their families. FRYSC staff coordinate numerous activities, including health services; social services; employment counseling, training, and placement; mental health counseling; drug and alcohol abuse counseling; child care; and parent education.

Each center identifies its own focus, which may vary depending on the needs of the local community. Local center councils establish the services offered by the various service providers. The Interagency Task Force charged with the creation of the FRYSCs envisioned a five-year implementation plan, with one-fifth of the eligible schools qualifying each year over the implementation period. However, it will take longer to fully implement the program. As

of FY96, 575 centers had been established. Most are Family Resource Centers rather than Youth Service Centers. Centers are spread throughout the state.

Funding is provided through a grant application process. Applications are submitted to the Cabinet for Human Resources by individual schools, however, grants are made to school districts, with the amount for each individual school specified within the grant. For a district to qualify for funding, more than one-fifth of its student population must be eligible to receive free school meals. Funding is calculated on a formula based on the number of students eligible for free lunch and minimum and maximum grant levels. The average grant level is $67,700.

Funding is structured to encourage both interagency and interdepartmental cooperation. Funding for the FRYSCs is appropriated to the Department of Education, which then allocates funds to the Cabinet for Human Resources. According to those interviewed, this cross-funding arrangement has encouraged staff from the different agencies to work together. In addition, the planning activities have brought staff from the two different departments together. Moreover, the FRYSCs have promoted dialogue between staff from the different departments within agencies, for example, between the Department of Mental Health and the Department of Social Services in the Cabinet for Human Resources.

Issues

The Kentucky experience highlights a number of important issues for policymakers to consider when instituting education finance reform. It emphasizes the importance of financial incentives for improved program delivery, but also points out the difficulties that may be encountered when trying to institute massive reforms.

The critical importance of creating financial incentives for agencies and departments to work together when designing interagency initiatives is brought out by the Kentucky experience. Many commented on the significance of the financial incentives to the success of the Family Resource and Youth Service Centers. These incentives were designed by the Interagency Task Force charged with the centers' creation and provide an important incentive for agencies with slightly different goals to cooperate to accomplish their common objectives. The funding arrangement between the Department of Education and the Cabinet for Human Resources ensures that the multiple agencies continue to cooperate even after the broad interagency commission had designed the centers. The use of such a funding mechanism demonstrates a clear recognition that funding streams often drive program management and that, when carefully constructed, these mechanisms can provide incentives for agencies to work well together.

The Kentucky experience with education reform highlights some of the obstacles other jurisdictions may encounter. One such obstacle is the resistance to reform. Many citizens have expressed concern that the changes in the accountability system endorse standards that do not reflect the values of the community. Whether resulting changes in the accountability system (e.g., movements towards more standard testing procedures) will affect the rewards and sanctions program is an issue that will have to be resolved. Another important obstacle that Kentucky may face soon and that any state undertaking similar reforms would have to

overcome is diminished public enthusiasm. A number of individuals expressed concern that changes in political attitudes toward taxation may erode the progress made to date. As in other states we visited, taxpayers in Kentucky are increasingly looking for ways to reduce their tax burdens. Nevertheless, support for education remains relatively strong in Kentucky, as all candidates for the 1996 gubernatorial race have indicated that education funding will not be reduced. Since some believe that the full educational gains of KERA will not be experienced until those youngsters who began their educational careers in 1990 graduate in the next century, strong support for education is vital to realizing this goal.

MICHIGAN

Summary

In 1993, the Michigan legislature severed the connection between property taxes and education funding by voting to eliminate property taxes as a source of revenue for education. This action broke a 20 year education financing reform debate in Michigan. Following this landmark vote, the Michigan legislature and citizens had to develop a revenue replacement strategy that would provide the needed revenue from a variety of revenue sources.

Several constitutional hurdles affected the revenue replacement options available to Michigan legislators. Working within these constraints, the legislature developed a revenue replacement proposal in 1994 that allowed voters to choose between two options for raising the needed revenue. The first option relied principally on a sales tax increase, while the second raised needed funds primarily through an income tax increase. As mandated by the Michigan constitution, the ultimate decision was made by the citizens through a constitutional amendment election.

Seventy percent of the public voted to increase sales taxes and rejected an income tax increase. The shift away from property taxes (the revenue replacement plan significantly reduced the reliance on property taxes but did not completely sever the relationship) increased the state's share of education funding significantly, and transferred increased responsibility for education financing from the local districts to the state. The new education funding arrangements also reallocated state funds to reduce interdistrict funding disparities by establishing higher guaranteed funding levels statewide and funding for districts with significant populations of at-risk students.

Michigan's experience demonstrates how one state reformed its educational financing system by totally dismantling its old system and building an entirely new structure. The new process decreased the funding disparities across districts, and by decreasing the reliance on local property taxes as the primary funding source for education, shifted the fiscal burden to the state.

MICHIGAN AT A GLANCE

Governance Structure

Executive

Governor elected for 4-year terms

Governor may serve 2 terms

Chief education official appointed by board

Citizen Initiatives

Changes to constitution permitted?	Yes
Changes to statutes permitted?	Yes

State Budget Process

Frequency of budget cycles	Annual
Must governor submit balanced budget?	Yes
Must legislature pass balanced budget?	Yes
Must governor sign balanced budget?	Yes
Can state carry over deficit?	Yes
Can governor item veto specific amounts?	Yes
Can governor item veto other language?	Yes
Votes needed to override veto?	2/3 Elected
Votes needed to increase revenue?	Maj. Elected
Votes needed to pass budget?	Majority Elected

State Fiscal Capacity and Tax Effort

Fiscal Capacity

Average per capita income	$18,693

Fiscal Effort (per $100 of personal income)

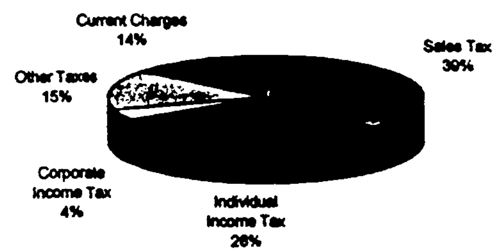
State tax effort	$6.41
Local tax effort	$5.26
User charges	$3.03

Demographics

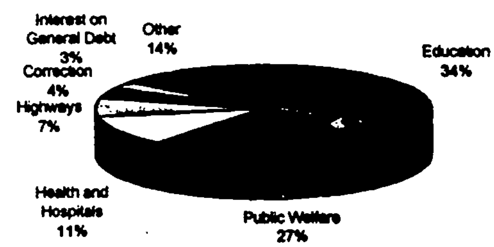
Population (millions)	9.48
Population under 18	26.4%
Population in school	17.0%
Low birth weight babies	7.5%
Children in poverty	21.8%

State Government Budget

Total General State Government Revenues, 1993



Total General State Government Expenditures, 1993



Resources for Education and Other Children's Services

Education

Total spending per pupil	$6,268
Funding from federal sources	6.3%
Funding from state source	27.1%
Funding from local sources	66.5%

Other Children's Services

State spending per low-income individual on:

AFDC	$475.45
Medicaid	$181.90
Foster care	$72.90
Maternal and child health block grant	$20.61
Child support administration	$23.46

Introduction

Despite multiple attempts to develop alternative funding strategies, the issue of education funding inequity has remained a source of concern for Michigan for more than 20 years. Property taxes were the major source of revenue for education, and therefore, property tax relief ultimately became the defining issue for the public debate. Although local property tax relief was generally supported by Michigan citizens, there was uncertainty about alternative funding mechanisms that would shift the locus of control from local districts to the state. This report provides an overview of how school finance reform was finally achieved in the state of Michigan.

Background

In 1993, Michigan was very dependent on local revenues for funding K-12 education. The local share had grown to more than 65 percent, and this growth put an increased and unequal burden on local districts. Since the amount of revenue each school district could raise was based on the relative tax wealth of that district, less wealthy districts had to tax themselves at higher rates to generate revenues equivalent to those in more affluent districts. The combination of the heavy reliance on local property tax and relatively low state funding led to substantial funding disparities across school districts.

In addition, imbalance among the major tax revenue burdens in Michigan led to public pressure to reduce relatively high taxes. Property taxes were relatively high at 58 mills, with 34 mills for school operating purposes (35.9 percent above the national average), whereas sales taxes were relatively low at 4 percent (33 percent below the national average).[1] The unbalanced tax structure led to numerous citizen calls for tax relief. For property tax relief to be achieved, alternative revenue streams needed to be identified, and they would more than likely be controlled by the state, not local districts.

As a result, the public debate about school funding inequity and property taxes pitted the issue of local control against property tax relief. These conflicting goals, plus the public's concern about an increase in other taxes, contributed to the repeated defeat of referenda and legislative proposals to change the education finance system in Michigan. Court intervention was considered as a remedy over the years but was not a viable option given the weak equity language of the Michigan constitution.[2] The Michigan constitution simply requires that the legislature establish and maintain a system of public schools; it provides little basis for a guaranteed level of educational quality.[3]

In 1993, the connection between property tax and education funding was finally severed when the legislature voted to eliminate the property tax as a source of revenue for education. By this time, Michigan voters had been presented with twelve different statutory or

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[1] Robert Kline, "School Finance Reform: Effects on Property Taxes."

[2] Addonizio, Kearney, and Prince, "Michigan's High Wire Act."

[3] The foremost precedent court decision as to whether disparities in per-pupil expenditures violate the state constitution is *East Jackson Public Schools v. State of Michigan*, 133 Mich App 132 (1984).

constitutional opportunities to alter the school financing system and reduce property taxes. The most recent defeat occurred in June 1993. Not yet ready to give in, the senate presented another bill that would provide property tax relief by reducing assessment ratios. This proposal resulted in a legislative deadlock, since many saw the it as tinkering with the formulas rather than reforming education finance. In an effort to break the deadlock, an amendment was proposed that would entirely eliminate the local property tax as a source of funding for school operations. Within 24 hours, both the senate and the house approved legislation to eliminate property taxes.

Revenue Replacement Options

Several constitutional hurdles affected the legislature's revenue-replacement deliberations. First, the Michigan constitution establishes a limit on the total amount of taxes that may be imposed by the legislature in any fiscal year. The constitution prohibits the state from collecting total tax revenues in excess of a fixed proportion of total state personal income.[4] The state can exceed the limit in a given year only if the governor and two-thirds of the legislature declare an emergency. Additional room can be provided under the limit by reducing other state taxes. Neither of these options was likely to occur. Consequently, the governor and the legislature were limited to selecting a combination of state taxes allowable under the constitutional limit and partially reinstating local property taxes.[5] The second constitutional hurdle was the provision that increases in one of the state's major funding mechanisms, the sales tax, require a constitutional amendment.

The passage of this legislation (PA-145) became the defining moment for education finance reform in Michigan. Alternative funding sources would need to be identified to replace the $6.5 billion in lost property tax revenue. As drastic as this move was, it finally provided Michigan with the opportunity to restructure its school finance system.

Since property taxes were no longer the primary funding vehicle for education, the legislature needed to develop a revenue replacement strategy. In December 1993, the legislature adopted a school spending package of $10.2 billion that was funded through a combination of state and local taxes recommended by a bipartisan legislative task force and the governor's revenue replacement proposal. The package included two options for raising revenues--a sales tax increase or an income tax increase. The public needed to decide, through a constitutional amendment election, either to raise the sales tax or default to an income tax increase.[6] In March 1994, Michigan citizens were presented with a ballot proposal that would increase the sales tax and reduce the income tax rate from 4.6 percent to 4.4 percent. If the ballot proposal was not approved, a legislative statutory proposal that raised the income tax would automatically go into effect.

[4] Addonizio, Kearney, and Prince, "Michigan's High Wire Act,"

[5] *Ibid.*

[6] In Michigan, a sales tax increase requires a constitutional amendment, and two-thirds vote in each house is necessary for a constitutional amendment to be placed on the ballot. Since the ballot plan incorporated a sales tax increase, voter approval was necessary.

Seventy percent of the public voted to increase the sales tax and rejected an income tax increase. A combination of taxes would now comprise the revenue source for education--sales tax, tobacco taxes, real estate transfer taxes, lottery profits, a dedicated percentage of the income tax, and a six-mill reinstatement of local property taxes. The approval of the ballot proposal increased the state's share of education funding from 35 percent to approximately 80 percent, transferring most of the responsibility for education financing from the local districts to the state.

Key Provisions of School Finance Plans[7]

Variables	1993	Voter -Approved Ballot Plan	Default Statutory Plan
Income Tax	4.6%	4.4%	6.0%
Sales Tax	4.0%	6.0%	4.0%
Property Tax (Nonhomestead)	34 mills	24 mills	24 mills
Property Tax (Homestead)	34 mills	6 mills	12 mills
Cigarette Tax	25 cents	75 cents	40 cents
Other Tobacco Products Tax	0%	16%	26%
Total Revenue Generated	$7 billion	$6.6 billion	$6.7 billion

With the shift in control from local districts to the state, the legislature developed a statewide allocation plan designed to reduce interdistrict funding disparities. The plan had two central components. First, the legislature reinstated the basic foundation grant program with a guaranteed basic grant of $5,000 per pupil. The intention of the allocation formula was to increase school spending in the state's poorer districts and reduce the funding gap across districts. In a state where the poorest school districts were spending an average of $3,500 per pupil, the plan would raise spending in all school districts to at least $4,200 per pupil in the first year and up to $5,000 over the next three years, with a maximum state guarantee of $6,500 per pupil.

The second component was targeted to address the needs of districts with large disadvantaged populations. The legislature appropriated an additional $230 million for K-12 at-risk funding and increased funding for preschool/school readiness to $43 million. Only

[7] Adapted from Robert Kline, "*School Finance Reform: Budget and Fiscal Effects.*"

districts with a base spending of less than $6,500 per pupil were eligible for at-risk funds, which gave districts that were in the midrange of the per-pupil revenues an additional boost. These districts included many of the urban and midsize cities that had growing populations but were not scheduled to receive substantial fiscal increases in the first year. The combination of the new allocation formula and the new categorical funds evened out the playing field and was generally seen as a success by educators across the state.[8]

Although the debate was primarily focused on education funding, educational quality issues were captured by the basic premise that, if the financing system was aligned, the poorer districts' capacity to realize the state's educational goals and policies would increase. Prior to 1994, educational quality issues were supported through legislation (PA-25) that included school improvement plans, an accreditation process for each school, public status reports on local reform efforts, and state-certified diplomas, and suggested that guidelines for a core curriculum be developed. At the time this legislation was passed in 1991, the legislature refrained from mandating the core curriculum because Michigan's constitutional tax limitation amendment required that the state fully fund all new mandates imposed on local units of government.[9] The 1994 school finance reform package further strengthened these quality measures and authorized a variety of other school improvement measures, including the establishment of charter schools, school code revisions, increased school instruction hours, and state-endorsed high school graduation standards. According to one legislator, now that the fiscal issues are resolved, the legislature and local school boards can focus on issues of quality such as core curriculum and career competencies.

Issues

When Michigan dismantled the old school funding system and decreased its reliance on property taxes to fund education, a 20-year school finance logjam was broken, and the state could not go back to the status quo. Replacing the lost revenue was indeed a difficult and challenging task for both the legislative and executive branches.

Michigan lawmakers successfully accomplished multiple agendas surrounding school finance reform: they reduced the statewide variance in per-pupil revenue; they established a minimum per-pupil revenue level; they reduced the property tax; and they increased the state share of K-12 revenues. Some suggest, however, that several challenges remain to be tackled by state lawmakers: reducing the continued funding disparity between the districts, ensuring long-term funding stability, strengthening districts' capacities to achieve statewide quality goals, and assessing the long-term impact of the revenue replacement strategy.

[8] Telephone interview with Mike Boulus, Executive Director, Middle Cities Education Association.

[9] Specifically, Article IX, Section 29, of the Michigan Constitution reads, in part, "A new activity or service or an increase in the level of any activity or service beyond that required by existing law shall not be required by the legislature or any state agency of units of Local Government, unless a state appropriation is made and disbursed to pay the unit of Local Government for any necessary increased costs."

School Funding Equity

While the new school finance system does not eliminate school funding inequities, it has substantially narrowed the gap between per-pupil revenues in the state's wealthiest and poorest districts. High-spending districts are now permitted to raise the per-pupil revenue to $6,500; however, the new minimum revenue level has been raised from $3,500 to $4,200. The continued funding gaps are attributable to the historically large funding variances among school districts and decisions the legislature made in enacting the new foundation plan. First, rather than move all districts whose 1993-94 per-pupil revenues were under the base grant level up to a new guaranteed minimum of $5,000 in the first year, the legislature chose to increase spending levels in these districts gradually. Second, the legislature chose not to "level down" but rather to "hold harmless" those districts in which the 1993-94 per-pupil revenue levels exceeded $6,500.[10] These districts could levy "hold harmless" tax rates at the local level. Additionally, the annual increases would be indexed to revenue and pupil growth. State policymakers saw that these choices were necessary to ensure that all districts would benefit from changes to the state's funding structure both in the short and long term. In general, the poorest districts will receive an increase in per-pupil revenues of 6 percent, more than double the 2.5 percent increase in the wealthier districts.[11]

While the new base grant raises the state's minimum resource level, it has not been adjusted for cost-of-living differences among districts. Even with the additional at-risk funding, the larger urban districts may still lag behind the wealthier districts both in terms of total revenues and in what their resources can buy, given not only the cost of living but the high numbers of disadvantaged children in these areas. For example, a midsize school district with a per-pupil grant of $4,600 could, on average, hire 74 staff per 1,000 students, whereas a small rural district could hire 114 staff per 1,000 students with the same amount.[12] In effect, the smaller districts will receive the greatest increase in school aid revenues, while larger districts will receive the smallest increase per student. The funding gap, although narrowed, will not lessen over time. The remaining disparities will continue unless further adjustments are made to the foundation formula.

Revenue Replacement

The voters supported the sales tax increase because it was perceived as more voluntary and less visible than the property or income tax. While the new education revenue sources will provide a more equitable distribution of resources among districts independent of individual district wealth, the revenue sources--sales tax, cigarette tax, and real estate transfer tax--are generally seen as regressive and overly sensitive to changes in the economy. Should these revenue sources decline or fail to produce at the same level there is no guarantee that other funds will be available to sustain the foundation grant formula.

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[10] Addonizio, Kearney, and Prince, "Michigan's High Wire Act."

[11] Robert Kline and Laurie Cummings, "School Finance Reform: Which Districts will Benefit the Most?", Public Policy Advisor (Lansing: Public Sector Consultants, Inc. February 14, 1994).

[12] Ibid.

The new system includes a partial reinstatement of the property tax, dedicates percent of the income tax revenue to school financing, and continues to rely on general fund transfers. Although general fund transfers are projected to continue at a lower rate (approximately 10 percent of total funding versus 33 percent), educators and legislators are concerned that there will be insufficient revenue in the future. In March 1995, a legislative proposal was introduced to increase the level of dedicated income tax for education so that the base education grants would not be dependent on general fund transfers. The revenue concerns are further compounded since the combined new taxes push the state closer to the constitutional limit on state-collected taxes. Taxes were reduced in FY 1994-95 to prevent the state from exceeding the limit. Projections indicate that Michigan will be about $800 million under the limit for the next few years.[13] However, as economic conditions change over time, the limit may leave little room for future tax increases to pay for new programs or to respond to changing needs.

Educational Quality

Even though the public debate ultimately focused on property tax relief and school financing, the issues of educational quality and equality were not disregarded. The new funding formula diminishes local responsibility for raising education dollars and transfers many decisions about school revenues to the state. Some hope that removing the revenue-raising burden from local school boards will enable them to focus their attention on improved educational quality. There continue to be conflicting messages in the quality discussions, however. On one hand, the state is moving to delegate quality decisions to local school boards by repealing the school codes. On the other hand, fiscal control has been centralized at the state level, additional school choice options such as charter schools are being considered by the legislature, and the state accreditation standards and state-certified diplomas have been mandated.

Some have suggested that the implications of the new funding system have not been fully explored and that further refinements may be necessary to ensure that school districts can implement quality reforms. Many of the quality reforms, such as school improvement plans, are dependent upon a solid base or infrastructure. It has been suggested that some of the districts do not have a solid base in terms of equipment, technology, curriculum materials, and professional staff to fully implement the quality reforms. The new funding system presumes that the extra per-pupil revenue will enable districts to secure these resources. Yet according to the phase-in provision of the allocation plan, many districts will not be brought up to the new per-pupil level for several years and therefore may continue to have insufficient resources. Additionally, capital improvements for school buildings are still the local districts fiscal responsibility, and infrastructure resources must be raised from the local tax base. Even with the at-risk funding, some of the urban districts may remain at a disadvantage.

[13] Interview with Robert Kline, Public Sector Consultants, Inc., Lansing, Michigan.

In the past, the legislature refrained from mandating the core curriculum primarily because Michigan's 1978 constitutional tax limitation amendment required that the state fully fund all new mandates imposed on local government. Now that the state has the appropriation responsibility, that barrier has been removed. Instead, it appears that Michigan is moving to deregulate the system, to eliminate the school codes, and to leave the quality decisions to the local districts.

Impact on Social Services and Other Community Supports

The legislative proposal to increase the level of dedicated income tax for education will further ensure that funds are available to maintain the gains in educational finance equity, but other services that support educational achievement, such as social services, may ultimately be left to compete for a smaller piece of the overall pie. Even if tax revenues go up, the proposed new federal block grant strategies, potential decreases in federal funds and the continued growth in Medicaid and corrections (which have grown from $200 million to $1.2 million over the last decade) may significantly decrease the overall resource level.

Local units of government can still levy property taxes for economic development, infrastructure, and up to three "hold harmless" enhancement mills for education if the district's per-pupil revenue is at or above $6,500. Now that education funding is no longer primarily dependent on property taxes, local districts may be able to focus more of their resources on development initiatives that will support and enhance educational success.

Summary

Michigan is one of many states struggling with school finance and quality issues. While Michigan may have solved its high property tax problem and decreased education funding disparities, it has only just begun to tackle the issues of quality and equity. The most important role financing can play in education reform is to provide fair and stable revenue. The overall impact of the switch from property tax reliance to increased sales taxes is still unknown. Generally, revenue strategies that are based on sales taxes are viewed as relatively unstable and place a disproportionate share of the tax burden on low- and middle-income taxpayers. Income taxes, however, generally provide a more stable source of revenue, such taxes are levied based on individual ability to pay, and the revenues grow naturally with the economy.

Eliminating the property tax was a dramatic and bold move for the legislature, yet it was the only way that Michigan could untangle its school finance problems. Given the state's history of failed school finance reform efforts, the new financing that replaces the property tax will likely remain in place for years to come despite questions about the long-term stability of replacement revenues.

NORTH CAROLINA

Summary

North Carolina's Performance/Program Budget (PPB) is a promising example of a state level effort to make government more results oriented and accountable. The product of a continuing, multiyear development process, PPB looks across the budgets of multiple state departments to measure the entire effort of state government to produce results. The genesis for PPB came in the 1990-91 legislative session when the state went through a difficult process of budget cutting. Out of that experience the Government Performance Audit Committee (GPAC) was formed to try, among other things, to streamline government and rationalize the budget-making process.

The PPB process divides state government expenditures into ten categories or programs that cut across departmental lines. Prior to the introduction of PPB, and still remaining in force as a parallel process, the state did a traditional, department-by-department, line item budget. As a part of the 1993-95 biennial budget process, pilot efforts were conducted to develop PPBs for two program areas: Environment and Health/Safety. In the 1995-97 budget process, deliberated in the spring of 1995, PPBs were produced for those categories as well as Justice, Correction, Social and Economic Well-Being, and Economic Development and Commerce. All ten categories, including the four new categories of Education, General Government, Cultural Affairs, and Transportation, are slated for the 1997-99 budget.

While some in the legislature see PPB as an aid in looking for redundancy and duplication and hope that a cross-departmental view will show places to cut public expenditures, some advocates for children's services believe that PPB will show service gaps as well. Most expect that, if cutting becomes necessary in the state budget, a PPB would make it less likely that cuts will be enacted across the board.

While PPB attempts to pull together a number of related activities for budgeting and decision-making purposes, the Smart Start initiative attempts to pull them together in local communities in order to provide more coordinated and comprehensive services. In 1995, 24 projects operated in 32 of North Carolina's 100 counties, focused on such early childhood services as immunizations, health screening, transportation to remote services, child care, Head Start, etc. Localities apply for state grants in a competitive process that ensures a statewide spread. Smart Start grants go to new, collaborative, not-for-profits rather than local governments or existing agencies. Smart Start, like PPB, is an attempt to more strategically focus government activities and services.

NORTH CAROLINA AT A GLANCE

Governance Structure
Executive
Governor elected for 4-year terms
Governor may serve 2 terms
Chief education official elected by public
Citizen Initiatives

Changes to constitution permitted?	No
Changes to statutes permitted?	No

State Budget Process

Frequency of budget cycles	Biennial
Must governor submit balanced budget?	Yes
Must legislature pass balanced budget?	Yes
Must governor sign balanced budget?	No
Can state carry over deficit?	No
Can governor item veto specific amounts?	No
Can governor item veto other language?	No
Votes needed to override veto?	N/A
Votes needed to increase revenue?	Majority
Votes needed to pass budget?	Majority

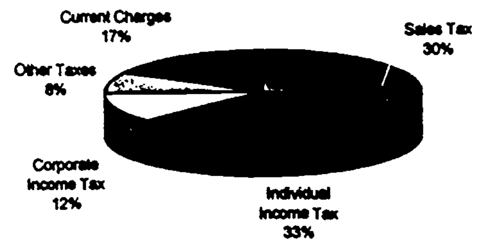
State Fiscal Capacity and Tax Effort
Fiscal Capacity

Average per capita income	$16,810
Fiscal Effort (per $100 of personal income)	
State tax effort	$7.89
Local tax effort	$2.99
User charges	$3.12

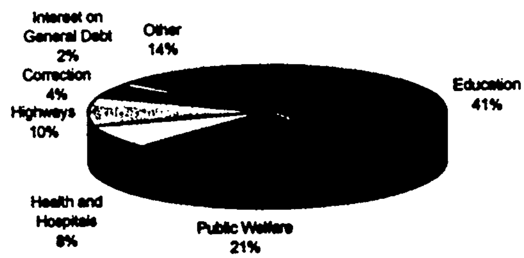
Demographics

Population (millions)	6.95
Population under 18	24.5%
Population in school	16.3%
Low birth weight babies	8.4%
Children in poverty	19.3%

State Government Budget
Total General State Government Revenues, 1993



Total General State Government Expenditures, 1993



Resources for Education and Other Children's Services
Education

Total spending per pupil	$4,555
Funding from federal sources	7.5%
Funding from state source	67.4%
Funding from local sources	25.1%

Other Children's Services
State spending per low-income individual on:

AFDC	$133.22
Medicaid	$133.24
Foster care	$6.56
Maternal and child health block grant	$21.44
Child support administration	$16.61

Introduction

Advocates for improved education and other children's services frequently call for reform of the processes that govern program funding and resource allocation. Too often, they argue, scarce resources are invested in programs that have not worked. Too often, what little investment is made in assessing programs focuses on compliance with regulations rather than on the results the programs produce or fail to produce.

North Carolina's Performance/Program Budget (PPB) is a promising example of a state-level effort to make government more results oriented and accountable. The product of a continuing, multiyear development process, PPB looks across the budgets of multiple state departments to measure the entire effort of state government to produce results. PPB, newly introduced to the legislative budget process, now coexists with the more traditional line item budget, and which will eventually dominate is not yet clear. In addition, while the North Carolina legislature uses PPB to look across departments, Smart Start, a noted state effort to integrate a number of service programs targeted to preschool children, is trying to coordinate program resources in local communities.

Although PPB and Smart Start have broken important ground in North Carolina and may offer some insights for other states as well, both are in fairly early stages of development. Both have demonstrated their utility, have supporters within the state, and have gained some recognition nationally; but each has roots going back only to 1993, and neither is fully in place. Smart Start, for example, has only been implemented in about one-third of the counties.

The Performance/Program Budget

The Performance/Program Budget had its origins in a recent state fiscal crisis. In the 1990-91 legislative session, the state of North Carolina, feeling the effects of a national recession, went through a wrenching process of making budget cuts. As a result of that experience, the legislature formed the Government Performance Audit Committee (GPAC) to try, among other things, to streamline state government and rationalize the budget-making process. In a remarkably candid self-assessment, GPAC found that the state lacked an effective strategic planning process and that planning, budgeting, and evaluation were not well linked. GPAC found that appropriating funds through the use of the line item budget process, which contained 80,000 items and ran 3,500 pages, caused the "legislature to focus on line items rather than results, content, and intent of programs...." Thus, in consultation with the Office of State Budget and Management, GPAC recommended the adoption of a PPB process.

Looking back, however, some now see PPB growing out of a more gradual process over a number of years of increasingly tying prevalence data, caseload data, and other hard information, in addition to more traditional explanatory budget narrative, to budgets. The PPB process is credited with dramatically advancing this movement from a system that provided informative background statistics on activities and caseloads to one that focuses on outcomes.

PPBs offer policymakers a way to get a handle on state activities and to better assess overall state efforts in ways that go beyond departmental line item efforts. To accomplish this, the PPB process divides state government expenditures into ten categories or programs, that cut across departmental lines. These categories are Health/Safety, Environment, Education, Correction, Cultural Affairs, Economic Development and Commerce, General Government, Justice, Social and Economic Well-Being, and Transportation.

The development of PPB has been gradual. Pilot PPBs were produced for two program areas, Environment and Health/Safety, as a part of the 1993-95 biennial budget process. For the 1995-97 budget, deliberated in the spring of 1995, the state Office of Budget and Management produced PPBs for four additional categories: Justice, Correction, Social and Economic Well-Being, and Economic Development and Commerce. All ten categories, including the four additional categories of Education, General Government, Cultural Affairs, and Transportation, are slated to be completed for the 1997-99 budget.

The *Primer to Performance/Program Budgeting* describes PPB as having six interrelated purposes:

- Eliminating overlap and duplication
- Establishing priorities
- Improving efficiency and effectiveness
- Preserving and improving service quality
- Restructuring and reforming service delivery
- Strengthening management practices.

Most acknowledge these multiple purposes but emphasize different objectives when describing purpose of PPBs. For example, some legislators and legislative staff see the PPB as an aid in looking for government redundancy and duplication, and hope that a cross-departmental view will show places to cut public expenditures. Some advocates for children's services believe that PPB will show service gaps as well. Most expect that, if it becomes necessary to make significant cuts in the state budget, PPBs would make it less likely that budgets will be cut across the board.

Several features of PPB are important to its functioning and to how it is perceived by state lawmakers. First, North Carolina's PPB process of tying all state budget expenditures back to the state statutes and regulations that authorize them lends discipline and legitimacy to the process. PPB uses the stated legislative purpose and expectations to create an intellectual structure and identifies how that intent has been carried out across the state departments and agencies. Doing so reminds legislators of their expectations for the appropriated funds. Furthermore, leaning heavily on statutes ties the planning and budgeting process into the legislative process, helping legislators feel ownership over the PPB process.

Second, the PPB structure contains a hierarchy of categories, designed to provide an orderly presentation of information to legislators or others. The broadest category is the *Program Area.* Within each Program Area, the activities of state government are organized into *Goals, Programs,* and *Subprograms* with each successive categorical district becoming less

broad in scope. An example from the Social and Economic Well-Being Program Area illustrates how these levels interact:

Program Area	—	Social and Economic Well-Being
Goal	—	Enable families and individuals to achieve maximum self-sufficiency and social well-being
Program	—	Preservation and development of children and families
Subprogram	—	Delinquency prevention services

Within each *Subprogram* there are narrative discussions of *purpose, expected outcomes, trends, objectives,* and *strategies* to reach those objectives. For example, the Delinquency Prevention subprogram has an objective directed at reducing training school commitments and identifies both a five-year history of commitment levels and projections for future reductions.

Finally, a common *taxonomy* allows state staff and legislators to move back and forth between the line item budget and PPB. The cross-referencing tool has been very important in making PPBs useful tools for those more familiar with the state's line item budget. PPB proponents are well aware that the ability of legislators to manage a new information format may be critical to its ultimate utility as a practical tool. The line item budget, whatever its flaws, is familiar and provides an important point of reference for legislators.

Continued use of the PPB structure would change the conceptual framework and language of the budget process. In line item processes, most discussion centers around why particular line items (salaries, rent, grants to localities, etc.) are expected or proposed to increase by the amount requested. PPB language, by contrast, focuses on identifying problems, strategies, expenditures, and results, thereby helping to shift the discussion toward a deeper look at priorities, program design, and underlying assumptions and away from the technical computation of individual line items.

Smart Start

Although not directly related to PPB, the Smart Start initiative is another example of state government seeking to take a comprehensive approach to the state's business. While PPB attempts to pull together a number of related activities for budgeting and decision-making purposes, Smart Start attempts to pull them together in local communities in order to provide more coordinated and comprehensive services. Smart Start may be, for North Carolina, a mirror image of PPB--a programmatic example of the desire to reinvent government and to more strategically focus government activities and services.

Begun in 1993, Smart Start is a state government initiative that encourages "local responsibility and the creation of public-private partnerships to educate and nurture children during their critical early years." It has grown quickly. In 1995, 24 projects operated in 32 of North Carolina's 100 counties, focusing on such early childhood services as immunizations, health screening, transportation to remote services, child care, Headstart, etc.. Localities

apply for state grants in a competitive process that ensures a statewide spread. Smart Start grants go to new, collaborative, not-for-profit organizations rather than local governments or existing agencies. Each collaborative, whose membership must be broad and representative, serves as a neutral convenor that advocates for partnerships, problem-solving approaches, and increased attention to early childhood issues.

The partnerships required to succeed in an effort such as Smart Start are difficult to achieve, and not all communities are at the same state of readiness. Smart Start funds support "collaboration coaches" who act as outside facilitators and help communities move at a pace that is consistent with their history, leadership, and unique goals and opportunities. Most local governments have reacted enthusiastically to Smart Start, but a few are reportedly wary of the creation of new quasi-governance structures. The private sector has responded well, contributing cash and in-kind donations, but both local government and private funding have been slower in coming than program advocates had hoped for, leaving Smart Start primarily a state-funded initiative.

As one would expect, the categorical funding of the various health, education, and social service programs systems has been a barrier to coordinated activity in Smart Start, and local entities have had to invent ways to pool funds for such projects as one-stop centers and multipurpose vans. An interesting question for the future is whether a state budget process that cuts across departments, as PPB does, would produce funding streams that would make coordination of services easier for initiatives like Smart Start.

Issues

North Carolina's PPB process and similar efforts in other states raise new and important questions for education and other children's services. This section discusses a few of the most salient issues.

First, for those concerned with education and other human services targeted to children and their families, the PPB story will not be complete until the education system becomes a part of the process. Education was placed in the last group to come under PPB, primarily because of the system's size. Education--including higher education--makes up over 55 percent of the state appropriations budget in North Carolina, with state funds paying approximately 70 percent of the cost of public education. A change in budget process over so large a portion of the overall state budget goes well beyond an interesting experiment and must be approached cautiously and with extensive preparation.

In addition, the state manages education appropriations in a way that makes a broad, goal-oriented funding process difficult to install. For example, schools are authorized to have a specific number of teaching positions under state policies that set class size and teacher-student ratios--the governor's recommendation for 1995-97 is to lower teacher-student ratios from 1:26 to 1:23, requiring the legislature to authorize hiring nearly 500 teachers and a like number of teacher aides. State decisionmaking also controls salary increases and establishes a great many programmatic priorities.

Second, while PPB promises an outcomes orientation, data issues may make it difficult to operationalize. In some children's services areas, the attempt to focus on results has

highlighted a lack of data. It would be fair to say that PPB moves the discussion in North Carolina toward budgeting by results, but state officials in this and other states may find that the technology to measure results and tie them to expenditures is still being developed. Establishing links between state agency activities and eventual outcomes may be further complicated in areas where local governments--counties and school districts particularly--are directly providing most services and must, therefore, be the primary source of activity reports. This is particularly true in the human services field, where the PPB discussion has not reached beyond the Department of Human Resources to consumers and counties. Since much of the responsibility for providing social services falls to counties in North Carolina's state-supervised, county-administered system, the lack of local government involvement may threaten the depth of the eventual change in thinking.

Finally, North Carolina's experience exemplifies both the importance and the difficulties of maintaining high-level support for the new outcomes orientation. Where data exist, it is difficult to tie expenditures to specific results. This is particularly true for education and other children's services, where numerous variables outside the sphere of a particular program's influence may have a tremendous impact on whether the desired outcome is achieved. Because PPB is new to North Carolina, it is not clear to what extent it or the existing line item budget--or both--will frame budget deliberations.

Prior to the 1995-97 legislative session, PPBs had been completed only as pilot projects in two program categories, with planning and budgeting staff working to perfect the process. In the early spring of 1995, the budget process for 1995-97 had just begun, and some legislators were seen in the legislative halls with both versions literally under their arms. One department's staff said that they were ready to "go either way," i.e., to answer legislators' questions from either book. One legislative staffer was waiting for her committee to exhibit a preference.

PPB is already having an influence on the budget process, however, as state departments prepare for outcome questions and appropriations bills more frequently state the outcomes expected and require reports back to the legislature on results. In the current environment, agencies are reluctant to propose expenditures if the results cannot be measured. But PPB, to fully realize its promise, needs to become *the* budget used by state lawmakers, replacing the traditional line item version of the budget. Supporters hope that will be the case for the 1997-99 budget session, when all ten categories are in place. One important measure of legislative support will be whether the legislative committee structure is altered to support a PPB process.

As is often the case with new efforts, support rests with a few key individuals. The former speaker of the house was outspoken in his support for PPB but lost his position when the Democrats lost control of the lower house. The state budget officer has consistently supported PPB, and it is closely identified with him. This support has been critical in encouraging state officials and legislative staff to consider new budgeting environments.

Some ambivalence is noted in the legislature, however, about a more policy-focused role. This support will be critical for the success of the PPB process since it attempts to identify and focus legislative attention on the policy, strategic decision-making level and

away from what might be described as micromanagement. In that sense it changes the jobs of the legislature, the individual legislator, and the managers of state agencies. In the same session in which it authorized PPB, the legislature required approval for any expenditures above 110 percent of a line item appropriation level, even if only a few hundred dollars in a multi-million dollar budget are involved. While these rules are applied judiciously, their adoption illustrates the pressure on legislators and their desire to simultaneously be both policy minded and on top of every decision. This tug is familiar to all who have worked with state legislature. How North Carolina accommodates these competing styles of governing may determine the ultimate utility of PPB.

OREGON

Summary

The Oregon Benchmarks are innovative tools established to measure long-term progress in achieving the state's strategic plan goals: increasing jobs and incomes by creating a diversified, productive economy; protecting the quality of life; and investing in the capability of the state's citizens. The Oregon Progress Board, a public-private citizen's group chaired by the governor, publishes a report every two years on the state's progress. The Benchmarks seek to create a shift in thinking toward results-oriented decision making and have drawn national attention.

The Benchmarks are being redesigned and improved over time. There were 259 Benchmarks discussed in the 1995 report, some identified as *Core Benchmarks* and others as *Urgent Benchmarks.* The Benchmarks are a broadly used tool, focused not only on the issues surrounding the financing of education and other children's services but also on a very wide set of indicators from air quality to economic prosperity to crime. As such, the Benchmarks provide a framework for assessing the quality of life in Oregon and for tracking how well the government functions.

Methods for tying Benchmarks to state agency performance indicators, and the key results expected if performance is successful, continue to be developed. State and other staff note that you cannot very easily make a direct correlation between the progress on a given Benchmark and a specific decision to fund or not to fund a discrete program or agency. Benchmarks do not make such decisionmaking easy or automatic. Yet it is clear that Benchmarks can be used, and are being used, to express priorities and to favor activities lending themselves to measurable results.

The Oregon Commission on Children and Families, which was created by the legislature in 1993, is another important Oregon initiative. The commission's agenda is built on two major themes. The first is a powerful reaction to what are seen as weaknesses in traditional services: intervention too late and too often to resolve crises rather than address root causes. The commission hopes to turn that around by moving resources to front-end wellness approaches. The second is a change in authority and decision making that pushes the responsibility for family and children's services down from the state level to the local (county) level.

OREGON AT A GLANCE

Governance Structure

Executive

Governor elected for 4-year terms

Governor may serve 2 terms

Chief education official elected by public

Citizen Initiatives

Changes to constitution permitted?	Yes
Changes to statutes permitted?	Yes

State Budget Process

Frequency of budget cycles	Biennial
Must governor submit balanced budget?	Yes
Must legislature pass balanced budget?	Yes
Must governor sign balanced budget?	Yes
Can state carry over deficit?	No
Can governor item veto specific amounts?	Yes
Can governor item veto other language?	Yes
Votes needed to override veto?	2/3 Elected
Votes needed to increase revenue?	Majority
Votes needed to pass budget?	Majority

State Fiscal Capacity and Tax Effort

Fiscal Capacity

Average per capita income	$17,789

Fiscal Effort (per $100 of personal income)

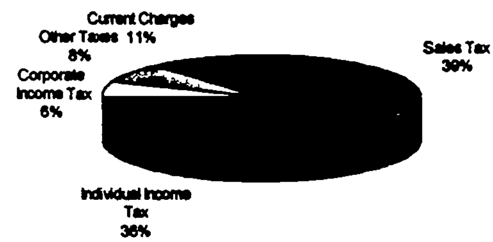
State tax effort	$6.46
Local tax effort	$5.24
User charges	$3.07

Demographics

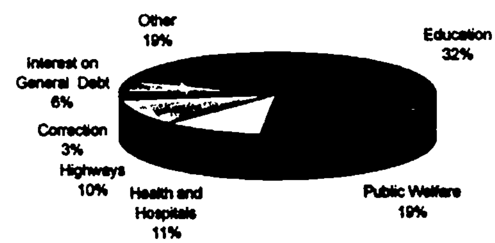
Population (millions)	3.03
Population under 18	25.8%
Population in school	17.1%
Low birth weight babies	5.2%
Children in poverty	15.3%

State Government Budget

Total General State Government Revenues, 1993



Total General State Government Expenditures, 1993



Resources for Education and Other Children's Services

Education

Total spending per pupil	$5,913
Funding from federal sources	6.6%
Funding from state source	31.5%
Funding from local sources	61.9%

Other Children's Services

State spending per low-income individual on:

AFDC	$264.37
Medicaid	$118.82
Foster care	$42.84
Maternal and child health block grant	$23.29
Child support administration	$20.45

Introduction

The Oregon Progress Board, a public-private citizen's group chaired by the governor, publishes a report every two years on the state's progress toward a very broad and comprehensive set of goals. The report measures the state's progress using the Oregon Benchmarks, innovative tools to establish goals and measure progress. The Benchmarks, which seek to spur a shift toward results-oriented, rational decision making, have drawn national attention. Building on the Benchmarks, Oregon has also been involved in a model state-federal partnership tied to Vice President Gore's efforts to reinvent government, dubbed the Oregon Option.

In recent years, many commentators on education and human services have called for movement away from compliance with bureaucratic regulation and toward accountability based on "outcomes"--in other words, holding governments, agencies, and service providers accountable not only for what they do but for the results of what they do. The Oregon Benchmarks process follows in this tradition and has begun to influence the state's planning and budgeting practices.

In addition to the ongoing Benchmarks process, Oregon is engaged in several innovations intended to shift the responsibility for decision making over family and children's services to newly created bodies at the local level. Our focus is on the role that finance is playing in this multifaceted reform.

The Oregon Benchmarks

The Oregon Benchmarks, subtitled "Standards for Measuring Statewide Progress and Institutional Performance," are a system of indicators that Oregon uses to assess its progress toward achieving broad strategic goals. The Benchmarks effort began in 1988, with the first Benchmarks report being published in 1991. Since then the Benchmarks have been an influential presence in Oregon, providing fixed reference points for a great many initiatives and policy discussions.

Oregon's long-range, statewide strategic plan is built on three principal themes: increasing jobs and incomes by creating a diversified, productive economy; protecting quality of life; and investing in the capability of the state's citizens. The Benchmarks were created as the mechanism to ensure progress toward these broad goals. They are broadly used tools, focused on a very wide set of indicators from air quality to economic prosperity to crime as well as the issues surrounding the financing of education and other children's services. The Benchmarks provide a framework for assessing the quality of life in Oregon and for tracking how well the government functions.

The state's strategies to meet these Benchmarks generally employ public-private efforts that stress cooperation, collaboration, and a results-driven approach to problem solving. An important distinction is made between Benchmarks, which measure how the state as a whole is doing, and performance measurement systems, which seek to measure how a given state agency, department, or program is performing.

The *1995 Oregon Benchmarks - Report to the Legislature* marks the third biennial report on all of the Benchmarks. The process of establishing Benchmarks, refining the methodology for measuring progress, and designing a clear and engaging presentation is ongoing. The Oregon Progress Board has aggressively sought to call attention to the Benchmarks and to obtain public reaction. In 1993, following the publication of the second report, the Oregon Progress Board held town meetings across the state, sent out surveys, and commissioned independent evaluations.

The Benchmarks process is not a random or unconnected set of indicators but rather the underpinning of a multifaceted strategic plan: some Benchmarks are seen as critical to the success of others, some need attention immediately, some are seen as more central and critical than others. There are 259 Benchmarks discussed in the 1995 report, identified some as *Core Benchmarks* and others as *Urgent Benchmarks.* Core Benchmarks are seen as crucial to Oregon's long-term strategies. Urgent Benchmarks are seen as representing pressing problems that must be attended to now and in the next few years.

Most in Oregon agree that the Benchmarks have powerfully affected the atmosphere of decision making, particularly by focusing increased attention on results. The state government has taken significant steps toward using the Benchmarks as an aid in decision making. For example, each state agency has been required to address the Benchmarks in its budget requests, and Urgent Benchmarks were favored in the most recent state budget process. The frequency with which persons involved in public policy refer to the Benchmarks, nearly always in favorable terms, is remarkable. The Benchmarks are described as "magnets for collaboration"; as having changed the state's policy debate to one of results, not philosophy; as forcing policymakers to look at root causes, longer term planning, measurability, and results.

Most state policymakers would also agree that it is very difficult to go from a results-oriented approach to the development of methods that use the Benchmarks as accountability tools. Methods of tying Benchmarks to state agency performance indicators, and the key results expected if performance is successful, continue to be developed. State and other staff note that you cannot very easily, if at all, make a direct correlation from the progress on a given Benchmark to a specific decision to fund or not fund a particular program or agency. Benchmarks do not make such decisionmaking easy or automatic. Yet it is clear that Benchmarks can be used, and are being used, to express priorities and to favor activities lending themselves to measurable results. Further, it is intended that, over time, meeting performance indicators and contributing to the achievement of Benchmarks will drive budget decisions.

Business groups and others are using the Benchmarks as reference points for their own agendas and, on a voluntary basis, a number of local governments, most notably Multnomah County, have adopted a local version of the Benchmarks process. Multnomah County, the state's largest county, whose jurisdiction includes the city of Portland, has done the most impressive job in the state of taking the Benchmarks process to the local level and using it as a tool in the operation of government. In fact, most officials involved with the Oregon Benchmarks would agree that Multnomah has gone farther than the state itself. The budget

message of the Multnomah County chair, (previously a state legislator very involved in the creation of the Oregon Benchmarks process) illustrates its commitment to using the Oregon Benchmarks: "The Multnomah County Benchmarks are connected to the Oregon Benchmarks and...together they form a common vision, a target for collaborative action, and a unique alignment of our efforts...."

The county's budget document weaves benchmarks, strategies, partnerships, trends, and anticipated key results together in ways that describe what the county is proposing to do, how it proposes to do it, what it will cost, and what is expected to be accomplished. It is an outstanding budget document, far clearer and more and cohesive than most public budgets.

The Oregon Option

State officials developed the Oregon Option--a revised way of doing federal-state business--to address what many saw as failings in the current relationship with the federal government: too many categories, too much paperwork resulting in a loss of creativity, and incentives for bad results. Under the Oregon Option, the federal government and the state of Oregon have entered into a Memorandum of Agreement to work together to redefine the federal-state relationship around results rather than around compliance. The federal government and Oregon have agreed to redesign the system consistent with the following principles:

- The redesigned system will be structured, managed, and evaluated on the basis of results (e.g., progress in achieving Benchmarks).
- The system will be customer oriented, especially through integration of services.
- There will be a bias toward prevention as opposed to remediation.
- The system will be simplified, integrated, and to the extent possible responsibilities will be delegated to front-line local providers.

Three clusters of Benchmarks have been selected for Oregon policymakers to begin working through to determine how a new federal-state relationship could be forged based on the above principles. These are *Stable Families*, a cluster of Benchmarks that assess the state's progress in dealing with teen pregnancy rates, child poverty rates, child abuse, domestic abuse, child support collections, and homelessness; *Healthy Children*, including indicators that track the state's progress in reducing infant mortality, increasing child care availability, and preparing children for school; and *Well-Trained Workforce*, including Benchmarks that measure state progress on academic achievement, graduation rates, substance abuse, juvenile delinquency, low-wage jobs, and illiteracy.

Under the Oregon Option process, the federal government will seek to shift the emphasis away from process requirements, error rates, and audits to free Oregon to pursue new ways of achieving mutually agreed-upon goals. The Oregon Option is a serious attempt to redefine intergovernmental relationships and represents the most comprehensive discussions currently under way between the federal government and a state.

Thus far, discussions between the federal government and Oregon have resulted in increased flexibility in the use of Medicaid funds for outreach, permission to blend a number of sources of immunization funding, the use of Social Security numbers as a common identifier in immunization efforts, pilot efforts at workforce development and significant

administrative savings. In addition, federal discussions with other states and localities have been influenced by the Oregon Option's approach and philosophy.

Innovations in Family and Children's Services

While Oregon works to redefine its relationship with the federal government--with Benchmarks and a results orientation at the heart of its vision for a new system--it is also working to redefine the state-local relationship governing family and children's services. In addition to the Benchmarks and driven by a similar spirit and orientation to results, the state is rife with efforts geared toward producing increased service integration, increased decision making at the local level, and a shift toward prevention and wellness.

Central to these changes is the Oregon Commission on Children and Families, which was created by the legislature in 1993. The commission's agenda is built on two major themes. The first is a powerful reaction to what are seen as weaknesses in traditional services: intervention too late and too often on a crisis basis rather than focused on root causes. The commission hopes to turn that around, to move resources to front-end wellness approaches. The second is a change in authority and decision making that pushes the responsibility for family and children's services down from the state level to the local (county) level.

In the newly devised structure the state commission relates to mirror-image county commissions. These bodies are appointed by elected county commissioners and produce local service system plans, addressing eleven state-specified Benchmarks, which are submitted to the state commission for approval. Most expect the plans, which today govern a range of services from early childhood to student retention and juvenile justice services, to grow in size and scope as the commission structure gradually takes over duties previously performed by the state Department of Human Resources (DHR).

While the general direction is clear in this transfer of authority and responsibility, some argue that the steps to be taken along the way need further work. Some also argue that there is insufficient transition funding and that additional planning is necessary to produce clearly defined roles. Transition issues have come to a head over the state's $65 million Title XX allocation and how much of it should support wellness programming through the county commissions or remain in DHR for child protective services. An undercurrent of strain between reformers and the state agency is notably present.

Realignment of state-local responsibilities in Oregon is complicated by an unusual division of responsibility between state and local governments. County government is responsible for most services to the aged and for public health, mental health, and some services to the developmentally disabled, while the state directly administers public assistance programs, child welfare, and vocational rehabilitation. The juvenile courts and juvenile justice system are a mixture of state and local cost and responsibility.

Oregon intends to transfer broad responsibilities for family and children's services, now lodged in state government, to the commissions described above, which are at the county level but are distinct from county government. Programatically, it hopes as well to break the cycle of crisis-oriented service delivery and to replace it with policies and practices that

promote wellness. In order to do this the state will need to invent funding and accountability systems where none now exist, or have been very recently created.

Issues

The atmosphere in Oregon is charged with reform-minded excitement. For example, although the national health care reform movement stalled, Oregon has taken on health care reform by creating the Oregon Health Plan which sets priorities among health care services and broadens coverage to nearly all state residents. The tradition of redefining a problem in Oregon's terms seems to be well established and a point of considerable pride.

Similarly, the Oregon Benchmarks, the related Oregon Option, and the Oregon Commission on Children and Families and related county level structures are all spoken of with a refreshing optimism that problems can be solved. The Benchmarks, particularly, seem established as a helpful process, and their use has been widespread. Rather than being viewed as just the esoteric idea of a small in-group of good-government reformers, Benchmarks have become part of the language and a results orientation part of the culture.

The move to a more localized service delivery system, focused on wellness rather than on responses to deep-end problems, is less likely to achieve universal or general support in the near term. Deep divisions exist between those committed to reforming current state agencies and those who would move away from state agencies as the center of human services delivery.

At least two important financing questions seem to be in play in Oregon. The first, related specifically to the Benchmarks, is how far the state and counties will be able to go, or wish to go, in making the Benchmarks process an integral part of the *operation* of government by influencing or framing the budget process.

Certainly indicators like the Benchmarks can guide budget deliberations in an important way by spotlighting priorities and long-term goals. Multnomah County's budget process is an outstanding example of how this can be accomplished. The county uses the Benchmarks as a policy tool that serves the important function of defining priorities in terms of long-term, quality-of-life goals. This focus helps to align the priorities of various governmental, private sector, and nonprofit entities.

Yet, as previously noted, there is limited technology available that convincingly ties discrete programs to specific outcomes, i.e., that can convincingly attribute causation among several coincident program activities. Here, too, Multnomah County is far ahead of most jurisdictions nationally and continues to refine its benchmark process, including designing and developing additional benchmarks. The county finds that the utility of benchmarks for priority setting and resource allocation is directly tied to the specificity of the benchmark itself. The goal is to move further down the path of creating an outcome orientation to resource allocation, i.e., a process that helps show clearly how to fund what works and not fund ineffective efforts.

The second question is how to structure the funding for a reformed education/human service system. Numerous versions of the new system are developing along parallel, and perhaps competing, tracks. Each new version is more local, more subject to individual

community wishes, and more preventive than its predecessor. Until the governance structure becomes clearer--e.g., identifying what will be state and local responsibilities and which local responsibilities will be functions of local government versus a local commission--the financing system is necessarily unclear as well. Questions of local flexibility versus accountability to statewide goals will challenge the state to invent a creative financing system.

It is difficult to fully understand the relationship among the several innovative efforts in progress to create local, collaborative, positive services and supports for families and children in Oregon. One interesting sidebar is that each effort, not surprisingly, is defining at least part of its goals by using the Oregon Benchmarks. It will be interesting to see whether the Benchmarks will help Oregon to achieve clarity and consensus among those seeking to reform children's services.

VERMONT

Summary

The state of Vermont has developed a long-term strategy to shift from a targeted human services system to a universal, integrated human services and educational system of support services for children and families. A sustained commitment to interagency cooperation by the Agency of Human Services and the Department of Education provided the impetus for this state's reform efforts.

In Vermont the responsibility for children's programs and services is split between these two state agencies, and each agency has a different model of service delivery. The Department of Education has a strong tradition of local control, whereas the Agency of Human Services directly delivers services statewide. Through a variety of interagency initiatives and program demonstrations, Vermont has begun to alter its institutional practices in terms of program planning and implementation at the state and local levels. The initiatives discussed here include Success by Six; Success Beyond Six, and the School-Based Health Access Program.

At the policy level, Vermont is beginning to experiment with new governance and budget structures that would institutionalize its interagency accomplishments and further the goal of universal services. These efforts include cross-departmental vision statement, local governance structures, joint outcomes, and a unified budget.

To date, Vermont's collaborative efforts have been designed at the state level to enhance the tradition of local control and ownership of both the issues and the solutions. These efforts have been successful in supporting a collaborative environment at the local level and have demonstrated the state's willingness to reorganize its financing and program structures to support local innovation.

VERMONT AT A GLANCE

Governance Structure

Executive

Governor elected for 2-year terms

Governor may serve unlimited terms

Chief education official appointed by board and approved by governor and senate

Citizen Initiatives

Changes to constitution permitted?	No
Changes to statutes permitted?	No

State Budget Process

Frequency of budget cycles	Annual
Must governor submit balanced budget?	No
Must legislature pass balanced budget?	No
Must governor sign balanced budget?	No
Can state carry over deficit?	Yes
Can governor item veto specific amounts?	No
Can governor item veto other language?	No
Votes needed to override veto?	2/3 Present
Votes needed to increase revenue?	Majority
Votes needed to pass budget?	Majority

State Fiscal Capacity and Tax Effort

Fiscal Capacity

Average per capita income	$17,811

Fiscal Effort (per $100 of personal income)

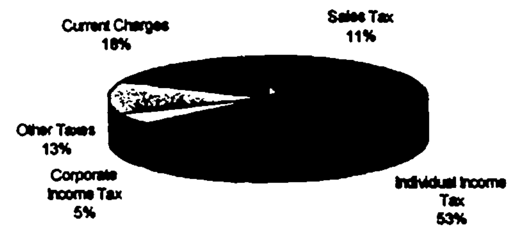
State tax effort	$7.58
Local tax effort	$5.34
User charges	$2.82

Demographics

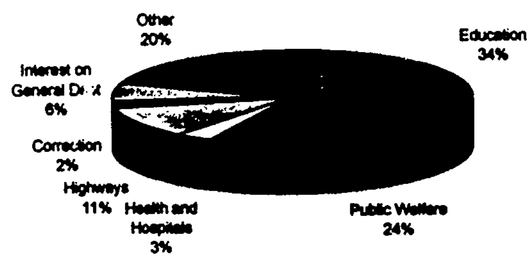
Population (millions)	0.58
Population under 18	25%
Population in school	17.1%
Low birth weight babies	5.6%
Children in poverty	13.5%

State Government Budget

Total General State Government Revenues, 1993



Total General State Government Expenditures, 1993



Resources for Education and Other Children's Services

Education

Total spending per pupil	$6,944
Funding from federal sources	5.2%
Funding from state source	32.3%
Funding from local sources	62.5%

Other Children's Services

State spending per low-income individual on:

AFDC	$448.68
Medicaid	$142.86
Foster care	$76.86
Maternal and child health block grant	$37.12
Child support administration	$25.17

Introduction

Vermont provides an example of how programmatic leadership within the executive branch of state government can result in interagency cooperation and set the stage for financing reform. Operationally, this collaboration is exemplified by changes in practice, program planning, and implementation at both the state and local levels. Legislative support and several interagency early education initiatives have positioned Vermont to advance its programmatic achievements through joint budgeting across education and human services and increasing the local role in governance.

This case study highlights the coordinated efforts of the state Department of Education (DOE) and the Agency of Human Services (AHS) to create a universal system of services for children and their families.

Background

Vermont's AHS and DOE have a long history of collaboration. The Vermont legislature stimulated this collaboration in the 1980s by passing legislation that required AHS and DOE to integrate services for children with special needs, particularly children with behavioral and emotional disorders. In 1990, the legislature broadened the scope of the collaboration and required the two agencies to develop an integrated approach to prevention services.

In Vermont the responsibility for children's programs and services is split between AHS and DOE. AHS is a consolidated state agency with eight departments or offices including mental health and mental retardation, public health, alcohol and substance abuse, corrections, social welfare, social and rehabilitation services, aging and disabilities, and economic opportunity. Services are delivered primarily by state staff in district offices throughout the state. The one notable exception is mental health and health services, which are delivered by local nonprofit agencies.

DOE is a decentralized agency covering 291 individual school districts and supervisory unions serving 100,000 students. Vermont's strong history and tradition of local control are very evident in the area of education. Entire local education budgets are presented to and voted on by the general populace on town meeting day. The commissioner of education is appointed by the state board and maintains constitutional authority independent of the executive branch. Both the governor and the state board submit independent education budget recommendations to the legislature. Education in Vermont, as in most states, is supported through a combination of local property taxes and a general state aid formula.

AHS and DOE have consistently demonstrated their commitment to improve the overall quality of life for Vermont's children through various prevention and early education programs and initiatives. As early as 1988, the two agencies began to coordinate their efforts to improve access to health and mental health services. These efforts laid the groundwork for the interagency collaboration that exists today.

Building the Interagency Relationship

Beginning in 1991, the legislature authorized several early education initiatives that began to institutionalize the process of interagency planning and program development. Two initiatives, Success by Six--targeted toward children entering school--and Success Beyond Six--targeted at school-aged children--set the stage for Vermont to implement joint programs.

Success by Six is a conceptual framework that provides (a) an integrated programmatic umbrella for all the early education programs and federal maximization efforts and (b) small planning grants for local communities to develop integrated early education plans. In 1994, the legislature appropriated $800,000 in new state funds between AHS and DOE as line items in each agency's budget for the Success by Six initiative. Initial funding required joint planning between AHS and DOE and supported local planning efforts, new programs, and eight Success by Six community projects.

Success Beyond Six was authorized by the legislature in 1993 and uses Medicaid as a vehicle to further enhance the ties between the two agencies at the local school district level. Vermont has traditionally operated an extensive Medicaid program, offering coverage to individuals with income up to 200 percent of the poverty level and uninsured children up to 225 percent, nearly to the full extent allowable under federal law. The federal government's share of the cost is almost 60 percent of the total expenditure incurred by the state.

The School-Based Health Access Program was developed as the primary mechanism to operationalize the Success Beyond Six initiative. First, the program created a process to finance school health activities with federal Medicaid funds, thereby freeing up local money to reinvest in preventive and support services. Second, it expanded the Department of Health's Medicaid/Early Periodic Screening, Diagnosis and Treatment (EPSDT) capacity. Through interagency agreements between the Department of Health (a department within AHS) and local school districts, each participating district is reimbursed for the federal share of the actual cost of Medicaid administration provided by the district. These funds must be reinvested in prevention services. Eligible services include home visiting, transition to school services, child care, mental health services, parent education, and other family support services. As of February 1995, 20 of Vermont's 60 supervisory unions have been enrolled as Medicaid service providers. In addition, DOE is enrolled as a Medicaid billing provider with responsibility for making claims to Medicaid for health-related special education services.

New federal maximization linkages provided additional avenues for local districts to respond to the needs of the growing number of special education students. This increased opportunity for local innovation and joint funding is expected to enhance the capacity of schools and communities to serve this population by increasing access to community programs and reducing education expenditures for support services. School-linked mental health and social services are now jointly funded with Medicaid, and DOE funds and case managers from community mental health centers now work in schools to link children and their families with an array of mental health and other community-based services.

Interagency collaboration also extends to other issues, populations, and programs. AHS and DOE are developing uniform rate-setting policies and procedures for out-of-home placements and jointly plan and implement several other state programs including: the

Healthy Babies Program (administered by the Department of Health); the Family, Infant and Toddler Program ("Part H" of the federal Individuals with Disabilities Education Act in which DOE and AHS function as co-lead agencies); Chapter I Reauthorization; Even Start; and the Head Start State Collaboration Project.

Both AHS and DOE acknowledge that their interagency efforts are to a great extent voluntary and built on personal relationships. Many view the development of a statewide children's budget as the next critical step toward institutionalization. A unified or single children's budget would provide a systemic framework for integrated accountability linked to outcomes. The legislature included language in the proposed 1995 property tax reform legislation requiring the two agencies to develop a unified, single budget for programs and services targeted to preschool children and their families.

Since the concept of a unified AHS-DOE budget was incorporated into the property tax reform proposal, it did not receive a lot of discussion or opposition by the legislature. Vermont's property tax reform debate focused on the creation of a statewide property tax process that would allow the state to share resources across districts to equalize education funding. The new property tax system, if approved, would shift the responsibility for distributing locally raised education revenues from the local to state level. This proposal was heavily debated in the legislature since it would not only change the education financing system but could potentially diminish the state's legacy of local control over education.

Under the proposed plan, AHS and DOE will have 18 months to develop the specific parameters of the new budget. Another component of the tax reform legislation provides for the local redirection of state resources from treatment to prevention. This measure would support the agencies' efforts to create local governing entities. Under the proposal, local communities that are able to keep and/or return children from costly out-of-home treatment would receive a portion of the fiscal savings to invest in prevention services. Both of these measures, if approved, would advance the interagency goals of creating a universal system of services for children.

Moving Forward

The two agencies have made great strides in creating the foundation for joint accountability through joint vision statements, common outcomes, and local governance. First, a joint vision statement was developed and drafted by managers from both agencies and jointly presented to the local districts. The AHS-DOE partnership vision was included in each agency's 1995 budget recommendations and provided the framework for their joint 1995 budget presentation to the legislature.

Second, the agencies have recently begun to tackle the issue of identifying desirable outcomes through several independent and collective efforts. AHS created the State Team on Children and Families, which is composed of senior-level staff from the eight AHS departments and staff from DOE. The team has developed a set of pilot common outcome and performance standards for all AHS services. In addition, AHS produced a report, *The Social Health Status of Vermonters--A Report on Vermont's Performance for Its Citizens*, which

compiles social indicators and cost data for the public programs designed to address these conditions.

On the education side, DOE has been in the process of implementing the common core of learning (curriculum guidelines and academic outcomes) for the past three years and is currently working on developing common data and student performance indicators such as school report cards and student portfolio assessments. These efforts have been complimented by the New American Schools grant award, which requires local health, education, and social services to agree on joint outcomes and strategies to meet the defined outcomes.

Third, the agencies have seeded several local-level interagency planning groups. Many of Vermont's local school districts are participating in a number of state pilots and now have multiple planning groups with, in some cases, overlapping membership and a categorical emphasis. For the most part, all of these groups function as local advisory bodies and do not have authority over resources. AHS and DOE are beginning to develop mechanisms by which the local planning groups can have greater decision-making responsibilities. A foundation grant will provide additional resources for the state to support the implementation and expansion of new local governing entities.

In many respects, collaboration has become the operational norm for both AHS and DOE. In the areas of health and early education, the planning and program structures are so integrated that it would be extremely difficult for the agencies to achieve their goals independently.

Issues

Vermont is a state in the early stages of finance reform and efforts to shift from a targeted human services system to a universal, integrated system of services for children and families. While Vermont's efforts are not unlike other states' experiences, the state may have some unique characteristics such as its size, culture, and relatively stable population that will enable it to sustain its efforts over the long term. Although Vermont has made significant progress in its efforts to institutionalize its interagency collaboration, many challenges remain. Two of the most significant are discussed below.

The Unified Budget

While the concept of an integrated children budget has been discussed in many other states, Vermont might be close to making this concept a reality. The proposed AHS-DOE unified budget may provide Vermont with a fiscal mechanism to institutionalize the interagency collaboration. However, the legislation does not define the parameters of the unified budget or clearly designate it as *the* operating budget for AHS and DOE, replacing the individual agency budgets.

A unified children's budget presents opportunities as well as risks. In terms of opportunities, if the unified budget entirely replaces the individual AHS and DOE budgets, it could be a catalyst to unify all the special population interest groups around a common agenda and broaden the scope of local governance. However, the risks are significant. It

may increase the chances of future children's services funding cuts because, when all children's resources are put together, the overall amount will appear to be disproportionate compared with other services. Overall, the implementation of common outcomes, local governance, and new federal block grants could be accelerated if a unified budget were operational.

Local Governance

Ultimately, citizens and the state leadership will view Vermont's interagency efforts as successful when the decision-making authority for both education and human services is lodged at the local level. To date, Vermont's collaborative projects have been designed at the state level and intended to enhance the tradition of local control and ownership of both the issues and the solutions. These efforts have been generally successful in supporting a collaborative environment at the local level and have demonstrated the state's willingness to support local efforts. The seeding of multiple pilots allowed for experimentation and demonstration of different models and has resulted in multiple planning groups at the local level. Local communities are now grappling with the questions of how to create a unified local structure and how to achieve legitimate formal authority over time. Until this point, the local communities have had control over limited new planning funds, but the ultimate decision making and accountability for human services delivery are still vested with the state. As the state continues to experiment with local governance AHS will need to be prepared to integrate more of its funding streams and DOE may need to consider new local school board structures that combine human services and education. Additionally, the two agencies, in collaboration with the local districts, will need to develop common outcome measures that are aligned with the unified budget and support interagency accountability at the local level.

Summary

Vermont's experiences illustrate how the combination of consistent and committed leadership, changes in operating practices, and a broad-based constituency that cuts across branches of government and agency lines can be developed to create a strong foundation for finance and program reforms. The evolving relationship between the Agency of Human Services and the Department of Education presents Vermont with a unique opportunity to institutionalize interagency collaboration.

WISCONSIN

Summary

Wisconsin is the site of a pioneering effort to create county-level integrated human services that originated in the 1970s as part of a federally sponsored set of demonstration projects intended to break down the lines between service programs. As a result of this initiative, county governments may organize the administration of the human services programs in several different ways. Most have chosen to integrate all of their human services activities--including services related to mental health, substance abuse, developmental disabilities, and aging--under one board and one agency. The Community Aids program folded together many categorical funding streams as part of an effort to integrate management and services within comprehensive umbrella agencies at the local level.

The Community Aids block grant has failed to attract increased financial support beyond inflationary increases, but it has remained in place and provided continued and stable support for county-level human services delivery, with local flexibility within broad state guidelines for nearly 20 years. While state funds for basic Community Aids have not increased in real terms over the years, a large number of counties have increased their local contributions to human services funding well beyond statutory matching levels, primarily to meet the cost of continually increasing court-mandated placements and services.

In another finance-based reform, Wisconsin created the Youth Aids initiative, whose intent was to shift the financial incentives toward greater use of community rather than institutional resources for delinquent youth. In the early 1980s, following the revision of the state's juvenile codes to allow for more community-level dispositions for youth alleged or adjudicated delinquent, the legislature pooled the amount of funding that the state was spending on placements in state corrections institutions for youth from each county, provided an overall increase to stimulate community-based strategies, and made counties directly responsible for the cost of care of adjudicated delinquents in state correctional institutions.

WISCONSIN AT A GLANCE

Governance Structure

Executive

Governor elected for 4-year terms
Governor may serve unlimited terms
Chief education official elected by public

Citizen Initiatives

Changes to constitution permitted?	No
Changes to statutes permitted?	No

State Budget Process

Frequency of budget cycles	Biennial
Must governor submit balanced budget?	Yes
Must legislature pass balanced budget?	Yes
Must governor sign balanced budget?	No
Can state carry over deficit?	Yes
Can governor item veto specific amounts?	Yes
Can governor item veto other language?	Yes
Votes needed to override veto?	2/3 Elected
Votes needed to increase revenue?	Majority
Votes needed to pass budget?	Majority Present

State Fiscal Capacity and Tax Effort

Fiscal Capacity

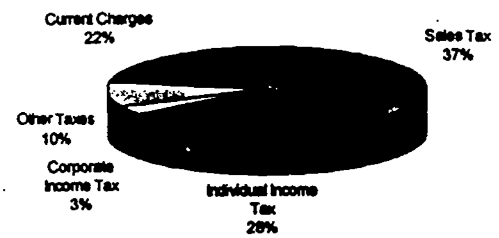
Average per capita income	$17,970
Fiscal Effort (per $100 of personal income)	
State tax effort	$8.24
Local tax effort	$4.75
User charges	$3.04

Demographics

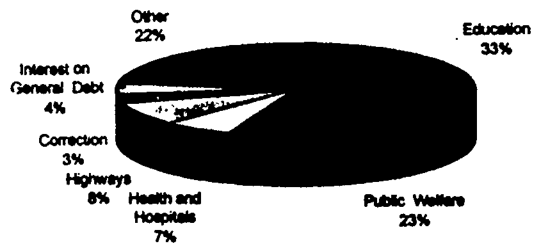
Population (millions)	5.04
Population under 18	26.6%
Population in school	16.5%
Low birth weight babies	5.9%
Children in poverty	14%

State Government Budget

Total General State Government Revenues, 1993



Total General State Government Expenditures, 1993



Resources for Education and Other Children's Services

Education

Total spending per pupil	$6,139
Funding from federal sources	4.4%
Funding from state source	40.2%
Funding from local sources	55.3%

Other Children's Services

State spending per low-income individual on:

AFDC	$366.47
Medicaid	$144.83
Foster care	$53.29
Maternal and child health block grant	$26.30
Child support administration	$25.90

72

Introduction

Wisconsin has a long and proud history of social policy innovation, including a pioneering effort in the 1970s to create county-level integrated human services. At a time when decategorization and service integration have been proposed repeatedly as major reform strategies, Wisconsin's experience with decategorizing funds for various children's programs provides a sense of how earlier efforts have fared in one state.

Two major Wisconsin program initiatives, commonly referred to as Community Aids and Youth Aids, offer valuable lessons for other states. Each decategorization effort was intended to increase local flexibility, foster service coordination, and support and encourage community-based service options.

Community Aids

Community Aids grew out of the federally initiated service integration movement of the 1970s. Beginning in the early 1970s, federal service integration efforts were associated with then Health, Education and Welfare Secretary Eliot Richardson. Richardson, credited with coining the phrase "hardening of the categories," championed the use of demonstration projects and other means to break down the lines between service programs. Movement toward decategorized funding and block grants was characteristic of federal activity during that period. The Title XX Block Grant replaced dozens of smaller social service program funds, the Federal Revenue Sharing process was enacted, and simplification and streamlining of state-federal relationships was a matter of considerable concern and attention.

In 1974, Wisconsin received one of several federal demonstration grants and entered a lengthy planning process resulting in the creation, in 1977, of pilot "human services" counties. In those counties, new county human services governing boards and service agencies were created to replace what had been a number of categorical boards and agencies. In one county, Racine, eight separate departments[1] were merged into one. Service integration in Wisconsin was not only directed at family and children's services but included programs targeted at all populations regardless of age, circumstance, or disability. The intent was to allow for comprehensive planning and coordinated service delivery, leading to increased efficiency, effectiveness, and accountability.[2]

Under Wisconsin statutes enacted in the mid-1970s, county governments may organize the administration of the human services programs in several different ways. Forty of Wisconsin's 72 counties chose to integrate all of their human services activities--including services related to mental health, substance abuse, and developmental disabilities--under one

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[1] The departments of Social Service, General Assistance, Mental Health/Substance Abuse, Developmental Disabilities, Juvenile Intake Service, Juvenile Detention Center, County Public Health Nursing, and Aging.

[2] *Sharing*, Project Share, Vol. 1, No. 1, Winter 1976-77; Wisconsin Community Human Services Project Status Report, February 1977; The Development and Operation of The HSD, Wisconsin Department of Health and Social Services, July 1982.

board and one agency. Some of these agencies also encompass the county's public health functions and aging programs funded by the Older American Act.

Rather than an end in itself, the creation of decategorized funding--the block grant known as Community Aids, which folded together much of what had been categorical funding streams--was seen as a necessary component of an effort to create integrated management and services within comprehensive umbrella agencies at the local (county) level.

Today, the Community Aids program combines an extremely wide spectrum of state and federal human services funding streams for many populations including the elderly, disabled, and children and families. The total annual funding is approximately $311 million, of which 78 percent is undesignated. Over time, the practice of earmarking funds within the basic county allocation has grown, with the largest such designation being for child care. Several historical maintenance-of-effort requirements apply as well. Two-thirds of the funds making up the basic county allocation are provided by state general-purpose revenues, with a required 10 percent county match.[3] The two largest sources of federal funds for Community Aids are the Social Services Block Grant (SSBG) and Title IV-E foster care.

Counties administer most human services in Wisconsin, including those supported by Community Aids. Each year, the state transmits to the counties contracts that (1) provide allocations, (2) require the counties to comply with state and federal laws and regulations, (3) establish fiscal reporting requirements, and (4) elaborate the process for state oversight and reimbursement. The state also requires counties to provide limited information about clients and expenditures through the Human Services Reporting System. Many see the level of information collected as insufficient, telling little more than the broad category of services and the overall number of clients in each service category by age, race, and ethnicity.

The Community Aids allocations reduced incentives for inappropriate services. Child welfare reformers have for years decried the incentives built into federal child welfare funding that, in effect, favor out-of-home care. Simply put, federal matching funds are available for foster care but not for efforts designed to help families while their children remain at home. Wisconsin's Community Aids allocation creates a more even playing field. Block grant funds are used for in-home or out-of-home care, as the case situation dictates, and county level administrators neither gain nor lose financial support for increased or decreased reliance on out-of-home care. The state agency estimates the amount of federal matching that will be earned statewide and advances that estimated amount to all counties, folded into and indistinguishable from the rest of the Community Aids block. This process of shielding the counties from federal disincentives to community care is a good example of how the state uses the Community Aids block grant, a financing methodology, to support a policy agenda.

The formula for distribution of Community Aids to counties was originally based on three factors: (1) the county's share of the state's medical assistance population; (2) the urban-rural status of the county, which takes into account the cost of providing services and

[3] Most counties provide funds above statutory match requirements, in part due to the lack of significant increases in Community Aids allocations. In 1993, counties had a $32 million match requirement and reported "overmatch" expenditures of $128 million.

the level of social and economic problems; and (3) the county's ability to generate tax revenue. The basic formula was established in 1980 and has been adjusted once to increase equity among counties. The overall amount of funding available for Community Aids has not, however, increased significantly over the years when adjusted for inflation. The Community Aids block grant totaled $199,314,400 in 1979 and $329,491,400 in 1994, a growth of approximately 65 percent, significantly below the rate of inflation.

Youth Aids

The Wisconsin Community Youth and Family Aids program (commonly known as Youth Aids) is a narrower grant to counties. It combines funding for placement of youth in juvenile correctional institutions and funding for community-based services for delinquent youth. In calendar year 1995, Youth Aids was funded at $81.7 million, nearly all of which was state general-purpose revenues. It was established in 1980-81 as a response to what was perceived as inappropriate placement of youth in juvenile correctional institutions. During the 1970s, the state government operated the juvenile corrections facilities and paid for the cost of all juveniles placed in those facilities. Many believed this funding practice provided incentives for counties to place youth in correctional facilities rather than meet their needs through community-based services. Counties could place youth in correctional facilities at no cost but had to allocate local resources or Community Aids program funds to put them in community-based services. Counties had no mechanism to move resources from institutional care to community care. At the very least, the practice of state assumption of all costs for correctional institutions made those costs invisible to counties.

The intent of the Youth Aids initiative was to shift the financial incentives toward greater use of community rather than institutional resources. Following the revision of the state's juvenile codes to allow for more community-level dispositions for youth alleged or adjudicated delinquent, the legislature pooled the amount of funding that the state was spending on placements in state corrections institutions for youth from each county and provided an overall increase of $1.6 million to stimulate community-based strategies.

The Youth Aids program was phased in over a two-year period. Beginning in 1981, a group of ten pilot counties became directly responsible for the cost of care of adjudicated delinquents in state correctional institutions. These counties could retain Youth Aids funds for community programs if the frequency or length of institutional placements decreased, but would have significant financial difficulties if placements increased. The Youth Aids approach was expanded to all counties by 1982.

For the first several years of operation, the Youth Aids program produced precisely what reformers had hoped: major reductions in institutional placements for most counties and the development and/or expansion of community-based resources. Over time, however, an increase in youth crime and reduced tolerance for crime have driven institutional and out-of-home placements back to and above earlier levels. Increasingly, a larger portion of Youth Aids expenditures has shifted toward institutional care and away from community-based care. Some estimates are that as much as 90 percent of Youth Aids funding now goes to support out-of-home placements.

State funding for Youth Aids has not increased significantly over time when adjusted for inflation. Depending on county budgets and actual expenditures, Community Aids and local tax dollars may be needed to supplement delinquency services funding in a given year.[4] The state is attempting to again address the increase of costly placements by increasing state funding to counties for in-home and community-based services and adding funds to the state budget to finance the costs of placements in secure juvenile corrections facilities for the most violent offenders.

The history of the Youth Aids program presents strong evidence of a positive effect on service provision resulting from the creation of a block grant. Pooling funding for costly placements with that for community-based services and giving decision-making responsibility for both to county administrators did change the incentives and the actual provision of services. There was a significant growth in community programs for youth during the 1980s as well as a real change in perceptions about the best way to serve youth. Even today, with less funding for community-based services, more community-based options appear to be available than before the creation of Youth Aids.

It is clear, however, that flexibility alone cannot result in improved decision making. If the funding is just not there for alternatives, only court-ordered out-of-home services, which are not constrained by funding availability, will survive.

Discussion--Some Block Grant Lessons

Wisconsin has a nearly 20-year history of broad decategorization of funding to the local level, and funding under this structure has long been institutionalized. When asked to reflect on the Community Aids and Youth Aids financing structures, administrators and advocates offered a number of observations and impressions that may have a bearing on efforts in other states. The history of these two programs in Wisconsin contains features that are unique to the state as well as some that may be more generalizable.

Sustaining Support for Block Grants Over Time

Although Wisconsin's Community Aids system was not instituted as a cost-cutting measure--in fact, it occurred coincident with funding increases--its later funding history has been flat at best. Some would suggest that large multipurpose funding allocations (e.g., the Title XX Social Services Block grant) typically have difficulty attracting and sustaining ongoing funding support.

When increases in human services funding have occurred in Wisconsin--e.g., for Youth Aids, the Community Options program for the elderly and disabled, or Family Preservation--these increases have been realized outside the block grant or as earmarked additions to it. Yet, although the Community Aids block grant has failed to attract increased financial support, it has provided continued and stable support for county-level human services delivery and allowed local flexibility within broad state guidelines for nearly 20 years.

[4] In 1993, counties reported expenditures on delinquency services of $53.8 million as against state-funded services of $80.3 million.

State Ownership and Commitment

Local and state administrators expressed differing opinions on how hard it is to attract legislative support for Community Aids. On one hand, local administrators identify the program as the funding mechanism of choice, because Community Aids funds can be used with broad local discretion. Counties will advocate for increases to the Community Aids pot as their first priority and more targeted allocations second. On the other hand, state staff and those state legislators with a human services agenda will often express the opposite preference and seek to target state funds to particular problems, strategies, or target populations. Local administrators indicate that state staff, who have considerable influence over the department's budget requests, do not fight hard for Community Aids because it does not reflect the state agency's highest priorities.

It may be that, along with the opportunity to determine how Community Aids are used, counties will inevitably inherit the responsibility for demonstrating the importance of services supported by Community Aids. In a very real sense the funding, once "blocked," becomes owned by the local government. Local government, not state government, may have the strongest vested interest in seeing that Community Aids funding is continued and enhanced over time.

Local Engagement

One of the goals often expressed for decategorized and blocked funding is to allow local interests (in Wisconsin this means local governments) to play an active and decisive role in tailoring services to community needs and preferences. Clearly, in Wisconsin, with its long history of strong local government involvement in human services, that goal is being achieved. While our analysis was not sufficiently detailed to identify the extent of service delivery variation in Wisconsin from county to county, it is clear that counties have the opportunity to develop a service delivery system that reflects local priorities. We heard no concerns raised about how counties actually used the discretion that Community Aids provides. The early fears of advocacy groups, that some problems or populations would be disadvantaged in favor of others, have not been borne out.

The Community Aids funding mechanism requires an approximately 10 percent local match on base funds, which represents the theoretical extent of county financing responsibility. In practice, however, many counties have increased their local contributions to human services funding well beyond statutory matching levels, primarily to meet the cost of continually increasing court-mandated placements and services. Some at the local level suggested that the availability of local funding support may have contributed to the lack of increased state funding, because legislators may see county pick-up of growing costs as an acceptable outcome.

Vulnerability to Cutbacks

The difficulty in garnering increases for broad, discretionary funding allocations is only part of the story. Some fear that in times of decreased government funding, block grants such as Community Aids will be most vulnerable. Pressures to reduce property taxes through

increased state funding for schools may pit Community Aids against presumably more popular causes such as property tax relief and education funding. Counties, constrained by property tax limitations, would be unable to replace lost state aids in this scenario. Recently, concerns about threatened cutbacks caused counties to conduct a survey about the uses of Community Aids. Dissemination of the survey results met with reportedly favorable responses from the legislature and is credited by some with forestalling Community Aids cuts in the 1995-97 state budget.[5]

Data on Activities and Results

The absence of clear and persuasive data about the uses of Community Aids funding and the impact of services it supports may be a further handicap in budget competitions. In fact, some observers in Wisconsin described recent movements to recategorize Community Aids (or to create several sub-blocks) as reflecting an interest in increased information, not an interest in reducing local flexibility.

The challenge to a state may be to allow increased discretion in local decision making while retaining the ability to know how that discretion is actually being used. Many in Wisconsin believe that the state, which has experimented with a number of data and information systems in the past, still lacks the data necessary to effectively describe services supported by Community Aids or to make a convincing case for their value.

Increased Efficiency

One argument for block grants and decategorized funding is that it allows the local level to invent creative efficiencies and to reduce costs and fragmentation. Local administrators in Wisconsin believe that they can, in fact, use broader discretion to find savings through more creative uses of personnel and economies of scale, but they warn against the notion that block grants can be painlessly accompanied by funding cuts. In fact, one administrator noted, so much of local costs are driven by caseload needs--for in-home care for the elderly and disabled, for court-ordered institutional care for youth--that the administrative efficiencies that can be achieved should be seen as minuscule.

Court-Ordered Costs

Judicial discretion, and the power of the judiciary to influence costs, may have been underappreciated in the original design of both Community Aids and Youth Aids. Several people noted that judges' decisions can be made without budget considerations and that some courts have been politically influenced by the public's desire to get tough on crime and on neglectful parents. Court-mandated out-of-home placements are driving costs in Community Aids and Youth Aids, making the goal of local discretion somewhat illusory. In some counties, the cost of out-of-home care, including foster care and institutional

[5] As this report is being written, consideration of Wisconsin's 1995-97 budget includes consideration of proposals to require counties to submit Community Aids expenditure plans and for the state agency to develop performance standards, both efforts intended to address the seeming nonspecificity of Community Aids supported services.

placements, consumes more of the budget every year but without comparable increases in overall funding.

Using the Opportunity

Wisconsin's Community Aids and Youth Aids funding structures allow for an unusual level of local flexibility and broad discretion in the design and delivery of human services programs. While many proposals under discussion in other states seek to pool funds for children's services, Wisconsin's system also pools funds across age and disability lines. Savings in the cost of dealing with delinquents can be, and are, re-invested in services to mentally retarded or aged, and vice versa.

One might expect, given this unusual level of freedom, to find service delivery programs and processes that are dramatically different from county to county in Wisconsin and from Wisconsin to other states. Generally speaking, however, this is not the case. Flexibility within Wisconsin counties for the provision of human services is used primarily to better manage service delivery, to creatively solve administrative problems, to tailor programs to particular local interests, and to create efficiencies. Many observers noted that having one point of responsibility and accountability for decisions related to all forms of care and all populations was a considerable strength of the block grant approach. But, as best we can determine, the funding flexibility has not been used to design and develop dramatically different models.

In part this may be because funding flexibility is no substitute for funding sufficiency. As one observer noted, "Flexible dollars are of limited utility when there is not enough funding." It may also be that people need to categorize in order to manage. Noting that county boards most often take the decategorized state funds and recategorize them, one staff person commented, "If we (state officials) don't categorize it, someone else will."

APPENDIX A: SITE VISIT SCHEDULE

California	January 1995
Kentucky	February 1995
Michigan	March 1995
North Carolina	February 1995
Oregon	January 1995
Vermont	March 1995
Wisconsin	December 1995

APPENDIX B: DATA SOURCES FOR STATE AT A GLANCE TABLES

Governance Structure

Executive

Length of gubernatorial terms: The Council of State Governments, *The Book of the States: 1994-95 Edition, Volume 30* (Lexington, KY: The Council of State Governments, 1994), Table 2.9.

Number of consecutive gubernatorial terms permitted: *Ibid.*

Method of selecting chief education official: *Ibid.*

Citizen Initiatives

Changes to constitution permitted? *Ibid.*

Changes to statutes permitted? *Ibid.*

State Budget Process

Frequency of budget cycles: *Ibid.*

Must governor submit balanced budget: *Ibid.*

Must legislature pass balanced budget: *Ibid.*

Must governor sign balanced budget: *Ibid*

Can state carry over deficit: *Ibid.*

Can governor item veto specific amounts: *Ibid.*

Can governor item veto other language: *Ibid.*

Votes needed to override veto: *Ibid.*

Votes needed to increase revenue: *Ibid.*

Votes needed to pass budget: *Ibid.*

State Fiscal Capacity & Tax Effort

Fiscal Capacity

Average per capita income: Steve Gold et al. "State Financing of Children's Services: Profiles of the 50 States." (Washington, DC: The Finance Project, September 1995).

Fiscal effort (per $100 of personal income)

State tax effort: *Ibid.*

Local tax effort: *Ibid.*

User charges: *Ibid.*

Demographics

Population: Bureau of the Census, U.S. Department of Commerce. *State Government Finances: 1993.* Spreadsheet data files supplied on diskette. Washington, DC: U.S. Department of Commerce, 1995).

Percent of population under 18: The Annie E. Casey Foundation. *Kids Count Data Book 1995: State Profiles of Child Well Being.* (Baltimore, MD: Annie E. Casey Foundation, 1995).

Percent of population in school: Steve Gold et al. "State Financing of Children's Services: Profiles of the 50 States." (Washington, DC: The Finance Project, September 1995).

Percent low birth weight babies: The Annie E. Casey Foundation. *Kids Count Data Book 1995: State Profiles of Child Well Being.*(Baltimore MD: Annie E. Casey Foundation, 1995).

Percent of children in poverty: *Ibid.*

State Government Budget

Total general state goverment revenues, 1993: Bureau of the Census, U.S. Department of Commerce. *State Government Finances: 1993.* Spreadsheet data files supplied on diskette. (Washington, DC: U.S. Department of Commerce, 1995).

Total general state government expenditures, 1993: *Ibid.*

Resources For Education & Other Children's Services

Education

Total spending per pupil: Steve Gold et al. "State Financing of Children's Services: Profiles of the 50 States." (Washington, DC: The Finance Project, September 1995).

Funding from federal sources: *Ibid.*

Funding from state source: *Ibid.*

Funding from local sources: *Ibid.*

Other Children's Services
State spending per low income individual on AFDC: *Ibid.*

State spending per low income individual on Medicaid: *Ibid.*

State spending per low income individual on Foster care: *Ibid.*

State spending per low income individual on Maternal & child health block grant: *Ibid.*

State spending per low income individual on Child support administration: *Ibid.*

APPENDIX C: RESOURCE LIST

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THE FINANCE PROJECT

The Finance Project is a national initiative to improve the effectiveness, efficiency, and equity of public financing for education and other children's services. With leadership and support from a consortium of private foundations, The Finance Project was established as an independent nonprofit organization, located in Washington, DC. Over a three-year period that began in January 1994, the project is undertaking an ambitious array of policy research and development activities, as well as policymaker forums and public education activities.

Specific activities are aimed at increasing knowledge and strengthening the nation's capability to implement promising strategies for generating public resources and improving public investments in children and their families, including:

- examining the ways in which governments at all levels finance public education and other supports and services for children (age 0-18) and their families;
- identifying and highlighting structural and regulatory barriers that impede the effectiveness of programs, institutions, and services, as well as other public investments, aimed at creating and sustaining the conditions and opportunities for children's successful growth and development;
- outlining the nature and characteristics of financing strategies and related structural and administrative arrangements that are important to support improvements in education and other children's services;
- identifying promising approaches for implementing these financing strategies at the federal, state and local levels and assessing their costs, benefits, and feasibility;
- highlighting the necessary steps and cost requirements of converting to new financing strategies; and
- strengthening intellectual, technical, and political capability to initiate major long-term reform and restructuring of public financing systems, as well as interim steps to overcome inefficiencies and inequities within current systems.

The Finance Project is expected to extend the work of many other organizations and blue-ribbon groups that have presented bold agendas for improving supports and services for children and families. It is creating the vision for a more rational approach to generating and investing public resources in education and other children's services. It is also developing policy options and tools to actively foster positive change through broad-based systemic reform, as well as more incremental steps to improve current financing systems.

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Rethinking Block Grants: Toward Improved Intergovernmental Financing for Education and Other Children's Services by Cheryl D. Hayes, with assistance from Anna E. Danegger (April 1995)

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